

104

ENFORCEMENT MECHANISMS FOR THE BALANCED BUDGET AMENDMENT

Y 4. EC 7: B 85/13/995/PT. 3

Enforcement Mechanisms for the Bala...

KE25
E2
175P

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

Part 3

February 16, 1995

Printed for the use of the Joint Economic Committee



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ENFORCEMENT MECHANISMS FOR THE BALANCED BUDGET AMENDMENT

Thursday, February 16, 1995

**CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
WASHINGTON, D.C.**

The Committee met, pursuant to notice, at 9:30 a.m., Dirksen Senate Office Building, Room 562, Honorable Connie Mack, Chairman of the Committee, presiding.

Present: Senators Mack, Bennett and Grams, and Representatives Saxton, Ewing and Quinn.

Also Present: Robert Mottice, Allison Tyrer, Colleen Healy, Juanita Morgan, Christopher Frenze, Brian Wesbury, Greg Williams and Missy Shorey.

OPENING STATEMENT OF SENATOR CONNIE MACK, CHAIRMAN

Senator Mack. The meeting will come to order. I suspect that some of our other members from the first panel will be here shortly.

Representative Saxton. We are having a series of -- well, not a series of votes, but we will be having a vote to follow the one that we just had in about 15 minutes, unfortunately.

Senator Mack. Well, I think we will go ahead, then. I've got an opening statement to make. And, then we will go to Mr. Saxton. You may have a statement to make.

Representative Saxton. A very short one.

Senator Mack. Then we will go right to Senator Kyl.

We have been debating the Balanced Budget Amendment on the Floor of the Senate for almost three weeks. In spite of all the attempts we have seen to obscure and evade the issue, the real questions before us are simple and cannot be ignored.

Do we want to balance the budget or not? And, do we want a larger or smaller Federal Government? Everything else is a distraction.

The problem we face is enormous. President Clinton abdicated his fiscal responsibility to the American taxpayer when he sent Congress a budget with deficits for the next five years totaling a trillion dollars.

The 1994 election was about changing the way we do business and can be summed up in one central message: We must get America's fiscal house in order.

Nothing we can do is more critical to the public. And, nothing provokes voters' frustration with their government more than our failure to face our financial problems squarely and do what needs to be done.

It is no wonder opponents of the Balanced Budget Amendment will do anything to avoid this fundamental issue. The old style champions of big government are trying to bog this debate down, because it's easier to hide behind a cloak of political rhetoric than to admit an addiction to big government spending.

Let no one be fooled, for what matters now is whether we are really listening to the American people and whether we are serious enough about the problem to impose on ourselves the same kind of financial discipline that every family in America must follow.

But, even if we all agree on the immensity of the problem and honor the wishes and the demands of the American people by passing the Balanced Budget Amendment, we are still left with the daunting task of actually balancing the budget. And, the question then becomes: How do we get there from here?

We need a responsible process which will guarantee that spending cuts, not tax increases, will be made to balance the budget and provide outside restraints to protect the interests of the taxpayers. A number of serious, responsible recommendations already have been offered.

Today, the Committee will focus on three of the most promising.

A couple of years ago, I came up with the concept of a Government Spending Reduction Commission which would act as a fail-safe mechanism to ensure taxpayers that the budget will be balanced through spending cuts, not tax increases. The bill is known as S.202.

A little bit later in the morning, I am hopeful that Congressman Dan Miller will be here. He has introduced companion legislation in the House. And, he intends to discuss the plan with us.

Later this morning, Senator Phil Gramm will testify to the Committee about his bill, S.149, which would require a balanced budget by fiscal year 2002, while protecting social security, requiring zero-based budgeting and providing for program sunseting every 10 years.

Finally, Senator Jon Kyl will discuss Senate Joint Resolution 3, his proposed Amendment to the Constitution, which would require that expenditures not exceed revenues for any given year nor exceed 19 percent of the previous year's gross national product.

Since the Administration has walked away from its responsibilities, it is left to us in the Congress to cut government spending. But, if we can't muster the political will to get the job done, the taxpayer deserves a fail-safe mechanism to guarantee that spending cuts will be made.

This is our chance to fundamentally change the way government does business and to show the Administration what reinventing government really means. I think this hearing is an important step forward toward keeping our promise to the American people by making that change.

And, now I will turn to the Vice Chairman and ask him for his opening statement.

[The prepared statement of Senator Mack appears in the Submissions for the Record. S. 202 can be found in the Senate Document Room.]

OPENING STATEMENT OF

REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

Representative Saxton. Well, thank you, Mr. Chairman. I appreciate very much the opportunity to be here with you this morning to discuss what we all recognize as a cornerstone of the legislative agenda, the agenda of the American people for this year.

As everyone here knows, the House has passed a version of the Balanced Budget Amendment, which I think is an acceptable version to the great majority of the members of your House, the Senate. And, hopefully, you will be able to muster the 67 votes that are needed to send this on to the states.

I would point out by way of observation that the Government Spending Revision Commission I think is a great idea, and that we ought to proceed to discuss it as one of the so-called enforcement mechanisms. I also understand the concept that Senator Kyl and others are talking about in terms of a percentage of growth and of GDP.

There is also another approach that we might want to look at. It has to do with a spending limit, a super-majority to go over that spending limit.

It's something that is being fleshed out in the House currently. And, it's just another thing for us to talk about along with the proposals that are already out there in terms of making sure that once we get the Balanced Budget Amendment in place that we have an appropriate mechanism to make it work.

And, so I look forward to hearing from the witnesses today, although I must say ahead of time that the House members are going to be back and forth, at best, because of the business of the floor today. But, thank you for holding this hearing.

We appreciate it very much. I look forward to hearing from the witnesses.

Senator Mack. Mr. Quinn.

OPENING STATEMENT OF REPRESENTATIVE JACK QUINN

Representative Quinn. Thank you, Mr. Chairman. I, too, want to welcome our colleagues here who will be testifying in just a few short minutes.

Mr. Chairman, we passed our version over on the House side. And, as a former local elected official in the Town of Hamburg, New York, this issue, the Balanced Budget Amendment, is not a complicated one for our constituents. Certainly, it's easy for them to understand.

Local officials have to balance budgets. We don't need polls taken on this one.

I am hopeful that we can get to the business of conducting your work on the Senate side so that we can be back to our constituents all across this country to make sure that we can control the way we spend their money.

So, I am pleased to have the panel here. And, I look forward to the testimony today.

Thank you.

[The prepared statement of Representative Quinn appears in the Submissions for the Record.]

Senator Mack. Thank you. And, now we look forward to both the testimony of Senator Kyl and Representative Miller.

Senator Kyl, why don't you go ahead and proceed?

PANEL I

STATEMENT OF THE HONORABLE JON KYL, SENATOR FROM ARIZONA

Senator Kyl. Thank you, Mr. Chairman and members of the Committee. I want to thank you for scheduling this hearing today to consider enforcement mechanisms that are needed to achieve a balanced Federal budget by the year 2002.

If the Senate adopts the Balanced Budget Amendment in the near future -- and I believe it will -- then the Senate and House must be ready to follow up with a credible enforcement mechanism as promptly as possible to ensure that the balanced budget requirement can be met in a reasonable way without unduly burdening the nation's economy.

I am going to deviate from my written statement to make this very important point. I was on a panel this morning with Norman Ornstein, who argued that about 30 states will quickly pass a balanced budget amendment when we pass it, and the rest of them will -- we will never get the other eight that I believe is required, because states will believe that we will not do our part at the Federal level to balance the budget and will put it off on to the states.

In order for us to make sure that this becomes a reality, we, in the Congress, need to immediately begin showing the country that we can, after a period of six to seven years, reach that balance without shoving the requirement on to the states to achieve it. So, I think what we do immediately after passage of the Balanced Budget Amendment will, to a large degree, determine whether or not it ultimately becomes a part of our Constitution. We have to show the way, in other words.

There are several enforcement mechanisms, which you have pointed out, Mr. Chairman, that will be the subject of discussions here today, including your idea of establishing a Government Spending Reduction Committee which, of course, is modeled after the successful Base Closure Commission established several years ago. The concept that I am here to discuss complements your proposal as well as several others.

And, the concept involves Federal spending limits. Whereas the Balanced Budget Amendment itself defines the goal, a balanced Federal budget, that's the goal, the spending limits represents the strategy that can get us there and keep us there. The Spending Reduction Commission and the ideas outlined in the other plans, including Senator Gramm's Balanced Budget Implementation Act, which is S. 149, represents the specific tactics to implement that strategy.

Let me start by describing my proposal in its original form as a constitutional Balanced Budget Spending Limitation Amendment, which is S.J.3, which I introduced on January 4th here in the Senate. It would write a spending limit of 19 percent of the gross national product into the Constitution itself.

Limit spending to the level of revenues that the economy has historically been willing to bear -- roughly 19 percent of GNP -- and there is no need to raise taxes. Congress would not be allowed to spend any additional money that might be raised.

Link spending to economic growth, as measured by the GNP, and a positive incentive is created for Congress to support policies that promote economic growth and opportunity. The more the economy grows, the more Congress is allowed to spend, always in proportion to the size of the economy.

A balanced budget amendment with a spending limit would keep Congress focused on the real cause of Federal budget deficits, excessive government spending, just as you pointed out, Mr. Chairman. A balanced budget amendment without a spending limit would tempt Congress to raise taxes instead, or try to raise taxes instead. And, that strategy is more likely to slow economic growth than it is to produce necessary revenue to close the deficit.

The fact is, the economy has already imposed an effective limit on revenue as a share of GNP. Despite tax increases and tax cuts, recessions and expansions and fiscal policies pursued by Presidents of both political parties, revenues as a share of GNP have fluctuated in a relatively narrow band between 18 and 20 percent of the GNP for the last 40 years.

Unless spending is limited to that level of revenues, which the economy has historically been willing to bear, a deficit will never be closed.

Given that revenues fluctuate in this narrow band of 18 to 20 percent of GNP regardless of what Congress does with tax rates, the key is not how much Congress taxes, but rather how it taxes. The key is whether tax policy fosters economic growth and opportunity, measured in terms of a larger GNP, or results in a smaller and weaker economy.

In other words, 19 percent of a larger GNP represents more revenue to the government than 19 percent of a smaller GNP.

A constitutional spending limit, such as the one I have proposed, is the best approach, in my view. However, if there is insufficient support to write a spending limit into the Balanced Budget Amendment itself -- and I have not pursued that matter in order to ensure that we can get the 67 votes on the basic approach -- I still believe that spending limits represent the best strategy to get the balanced budget in the context of the implementing legislation, which we will have to pass.

So, with that in mind, I am preparing to introduce a legislative version of my constitutional Balanced Budget Spending Limitation Amendment, which sets spending limits, declining one-half percent of the gross national product -- by the way, which is the new preferred measurement. It's close to the GNP, but GDP is supposedly a little more refined.

It would decline by one-half a percent of the GDP each year from the current level of about 21 and a one-half percent in Fiscal Year 1996 until balance is achieved in the year 2002 at 19 percent of the GDP, or to balance with revenues, whichever is less. But, it turns out that reducing it by half a percent a year does get you to that 19 percent.

And, thereafter, it would be capped at 19 percent of the GDP. And, I believe this represents a very rational way of defining the target numbers that we need to achieve, because deficit targets are established based on the application of spending limits which are linked to economic growth.

Mr. Chairman, I see the yellow light is on. I would ask your permission to include the entire statement as a part of the record.

And, just let me conclude with this point: There needs to be a rational approach to the way that we reduce the budget deficit to get to balance by the year 2002, and to stay at that balance.

We can set arbitrary targets, or we can set targets based on the percent of the GNP that the economy has historically been willing to accept as revenues to the Federal Treasury. And, the nice, happy coincidence is that if we reduce by a half a percent a year, we will achieve balance by the year the constitutional amendment requires, 2002, and it will be at 19 percent of the GDP, exactly the level the economy has been willing to bear in the past.

This represents a rational approach. It's the direct approach, because it limits spending, which we all recognize is the problem.

I would urge that as this Committee develops the implementing ideas, that the spending limit be a part of that implementing legislation. I believe it can be justified, both with respect to reduction of the Federal budget deficit and, importantly for those of us who are Kempian in our economic thought, to stimulate economic growth, because if you tie spending to growth measured by the GNP or GDP it provides us the incentive to do smart things with respect to economic policy because that bears on how much we can spend.

Thank you, Mr. Chairman.

[The prepared statement of Senator Kyl appears in the Submissions for the Record. S.J. Res. 3 is available in the House Document Room.]

Senator Mack. Thank you, Senator Kyl. Are you planning on staying or do you have to go?

Senator Kyl. I would be happy to stay for a little while.

Senator Mack. Well, then, why don't we go ahead and go to Congressman Miller? And, then we may have some questions.

Senator Kyl. Sure.

Senator Mack. Congressman Miller, why don't you go ahead with your testimony?

And, let me just say publicly, I appreciate the fact that you have introduced the Spending Reduction Commission in the House of Representatives.

**STATEMENT OF THE HONORABLE DAN MILLER,
REPRESENTATIVE FROM FLORIDA**

Representative Miller. Thank you. Thank you for having this hearing today.

And, it's a pleasure to be here and talk about the need for real budget enforcement. When Senator Kyl was in the House, I supported his approach to balancing the budget.

Actually what the Senator from Arizona is proposing is real spending targets -- may fit exactly into what I am talking about when I go through my explanation of the Spending Reduction Commission. So, it makes sense maybe to combine the both of them.

It's exciting to be here, because we are debating how we are going to balance the budget, not whether it needs to be done. We know we are going to balance the budget.

Senator Mack. That seems to be a bright light on.
(Laughter.)

Representative Miller. It's already assumed we are going to balance the budget in the year 2002. We have passed The Balanced Budget Amendment in the House.

And, even if it doesn't pass in the Senate, which I'm optimistic it will, the vast majority of the Members support it. So, we are moving in the direction. That's exciting.

But, the problem is the process of getting there. George Will made the statement that it was intellectually easy to balance the budget, but it was politically very difficult to balance the budget.

And, what the Spending Reduction Commission is about is the process of getting to that balance by year 2002. We all agree, I think, here on the panel, that the problem is spending rather than revenues.

As President Reagan used to say, it's not a process that we are taxed too little, we spend too much. We need to focus on the spending side of the equation.

We know that for every dollar of tax increase, spending went up \$1.58. Whether it's President Bush's tax increase in 1990 or President Clinton's

tax increase of 1993, it doesn't really go to solve the problem unless we go after spending.

And, no one has gone after that. So, we have got to go after spending. I think we all recognize and agree with that.

Now, the process problem is how do we get there. I'm on the Appropriations Committee this year in addition to being on the Budget Committee. And, the process, at least during the past years, has been very much skewed towards spending.

As a member of the Appropriations Committee, or even as a Budget Committee member last term, people always came to me, "How can we get more spending for this program? This is a great program." No one comes and tells you, "Cut spending."

An interesting book by James L. Payne called *The Culture of Spending*, analyzes the process of spending in the 1980s in particular. And, one of the things he came up with is during one budget cycle there were 1,060 witnesses called before the Appropriations Committee. And, 1,014 were there advocating more spending.

So, the process is biased towards increasing spending. And, so what we need to do is break that cycle.

And I think that the Spending Reduction Commission can move in that direction. Luckily, this year we are seeing a whole different type of witness before Appropriations.

In Budget, last year, we had economists that stood up and advocated reducing the deficit down to zero. In the past, they were always justifying why we could just have deficit spending.

This idea was drafted by Senator Mack. When I first came to Congress, it was a great idea. And, I supported it and worked with Mr. Kasich and others last year.

We introduced it again this year with bipartisan support. Mr. Minge, a Democrat from Minnesota, is the lead co-sponsor. I think we have nine Democrats already co-sponsoring it in the House. I am optimistic we will go in a bipartisan fashion.

Let me briefly tell you basically how it works. It sets the goal that by year 2002 we balance the budget. Okay.

And, it says, based on CBO estimates, that it's going to take \$45 billion a year in spending cuts to reach the goal in year 2002. And, so Congress is mandated by this legislation to cut \$45 billion in spending every year until year 2002.

If it does that, the Commission doesn't do anything. If Congress does not cut \$45 billion in spending, then the Commission comes into effect.

The Commission embraces the best ideas of the Base Closure Commission idea, the Grace Commission idea and Gramm-Rudman, all rolled into one piece of legislation. The Commission is a seven-member panel that is appointed by the President, based on recommendations from Congress.

The Senate would approve the members. It's bipartisan, with four members of the Majority party and three members of the Minority party.

And, if the President comes up or if Congress comes up with a budget by August 1 that only cuts, say, \$30 billion instead of \$45 billion, then the Commission would go into action on August 1 with a series of recommendations to get the rest of the spending cuts, to get the other \$15 billion. It would submit those to the President.

And, then there is a procedure where the President would have a chance to approve or disapprove the whole thing, basically, or could make some changes. It would then go back -- come to the Congress.

And, Congress would then have to act in an expedited fashion without amendments, similar to the base closing idea. It's almost an all or nothing thing.

And, if Congress doesn't act by a certain deadline -- and, again, it's expedited so there are no filibusters and such. There would be a forced vote on these.

If they do not act, then a sequester would occur, which is across-the-board cuts. And, I know we all have concerns about across-the-board cuts.

We prefer not to go the across-the-board route unless we absolutely have to, because when you go to across-the-board cuts, as we know, you end up cutting poor programs the same amount as good programs. But, at least, it forces that hammer at the top. It's going to force us to get \$45 billion every year.

So, it's an idea that I think gets us to the balanced budget. It's the process to move in that direction.

When we talk about \$45 billion a year, which is a CBO number, we could go the route of a percentage of GNP, as Senator Kyl talked about. And, that would work just as well.

So, there are some refinements that can be added to this. I am excited about the process, because we all agree on the end result. This is the means to the end.

Thank you. And, I have testimony I wish to submit for the record, sir.

[The prepared statement of Representative Miller appears in the Submissions for the Record. H.R. 202 is available in the House Document Room.]

Senator Mack. Certainly. We will include that. And, thank you again, both of you, for your testimony this morning.

Senator Kyl, let me just start with the 19 percent. Each time I hear the 19 percent, I can't help but think of the chart that many of us saw a few years ago in *The Wall Street Journal* that, in essence, said that you are going to collect -- it may have been 19 and a half percent, but somewhere in the neighborhood of 19 percent of GDP, regardless of what the tax rates are.

And, it showed that when the highest marginal tax rate was -- I don't know whether they went back to when it was 90 percent, but certainly in the 70 percent range, that regardless of what the highest marginal tax rate was, and regardless of what the change was over the years, that the amount of revenue that was collected by the Federal Government was 19 percent of GDP.

Is that kind of where you came up with the idea?

Senator Kyl. That's exactly where I came up with it. In March 1983, W. Curt Houser wrote an op-ed piece in *The Wall Street Journal* and followed that with a chart. And, you described it precisely.

He used GDP. And, that was at 19.5 percent. But, the conversion is as I indicated.

And, that's right. When Congress -- and the luxury tax is the best example of it to raise revenues by raising tax rates, and marginal tax rates are even -- are just as much the same way. You try to do that, and you end up with less revenue. And, of course, when you reduce taxes it's like having a sale at the store.

They don't have sales to make less money. They have sales to make more money. They make it up on volume.

And, it's the same way with tax rates. If you try to increase the rates, you end up getting less revenue.

If you decrease the rates, you can end up with at least as much revenue. So, the revenues are constant.

And, what I propose is to tie in our deficit reduction goals to sound economic policy, because that way you have to reduce spending less because your GDP is growing. And, therefore, what you can spend naturally grows with it.

Senator Mack. Congressman Miller, I think the fundamental change that has taken place, as you indicated in your comments, is that the

discussion in Washington today is really how to bring about the spending cuts, as opposed to how do we finance more and more government. And, it seems to me that the ideas that you've talked about this morning, as far as the Spending Reduction Commission, really put in place a bias.

And, I used to shy away from that word. But, put in place a bias in the process to solve the deficit problem by cutting spending.

Is that accurate?

Representative Miller. Absolutely. It has been a bias in favor of spending in the past.

And, now what we need to do is to get a bias against spending so that we really bring down spending, because we are never going to get the deficit under control if we don't bring spending under control.

Senator Mack. The last point that I would make, and then I would turn it over, and I'm not sure whether you made it, but with respect to if and when we finally get to the point where the Spending Reduction Commission's proposal has to be voted on, our proposal does not permit a Member of the Congress to offer an amendment to protect something in his or in her district. It would be just like on the Base Closure Commission.

We will have a proposal before us, which has worked its way through the process, and we will have a simple up or down vote. Is that the way you --

Representative Miller. Absolutely. It's just like the Base Closure. There are no amendments allowed, so that everything is on the table.

And, that's -- Dick Arney first came up with the idea of the base closure. And, that was a problem that under Base Closure nobody could close a base because there were always two Senators or one Congressman defending that base.

And, we are going to find individual projects that are going to have two Senators and a Congressman defending it and by having it so that we are going to have to accept it all, then it gives us -- lobbyists say, you know, it's a cop out where, as politicians, we just take the easy way out. No.

You know, we've got to get to the result. And, we haven't done it so far.

So, let's get some vehicle. And, that's what this is, a vehicle to get to that point in the year 2002.

Senator Mack. I will turn it over. Go ahead, Congressman.

Representative Saxton. Thank you, Senator. I would just like to return to this 19 percent concept, because I think there are some events in modern day that kind of relate to it in a rather direct fashion.

And, I will do this in a bipartisan way, because I think both parties have contributed to it. For example, in 1990, George Bush and the Democrat leadership of the House went off to Andrews Air Force Base and came back and said, "If we don't do something about the deficit by 1995, we will still be running a \$170 billion deficit."

So, we all know what the result was. We came back -- they came back and without my help, but on a bipartisan basis in the House, at least, a tax increase was passed -- a tax rate increase was passed.

And, then along came 1993 and we still had a big deficit problem. And, in 1993, Bill Clinton and the House leadership at that time said, "Gee, we've got to do something about the deficit or we are going to have the Budget Reconciliation Act of 1993. And, once again, if we don't do something, we are going to continue to run deficits in the out years that will be staggering," and "at least as big as they are now," was the word at the time. And, once again, we all know the result. We had another tax rate increase.

The President just projected his out-year budget deficits. And, once again, we are at \$200 billion.

Now, I suspect that we are still collecting, with these tax increases, if history follows true, are we still doing 19 percent in terms of the percentage of GDP?

Senator Kyl. Yes, we are. I've got the exact levels here.

But, you can track it. And, it all -- it falls right within that narrow band.

I don't have the number right in front of me for last year. My staff might be able to get it.

But, it is within that very narrow range. It just has not fluctuated regardless of the attempts to raise more tax revenue through increases in tax rates.

Representative Saxton. As a matter of fact, the staff just showed me the latest year's receipts are exactly 19 percent.

Senator Kyl. That makes the case. And, Mr. Chairman, I would say that it seems to me that, in this implementing legislation, these—both of these ideas work very nicely together and, frankly, work well with the Gramm-Army sequestration proposal as well.

Gramm uses an arbitrary number for each year. You could simply replace that with our one-half percent reduction.

You get to the same place. But, I think with our proposal you provide an extra incentive to pursue sound economic growth policies, because if we do that, in effect, we don't have to cut as much, because the economy has grown more.

But, the numbers are within the ball park, whether you use the Gramm numbers or ours. And, of course, if the Base Closure Commission concept that you have proposed does not -- if that's voted down, you could still have a sequester.

So, you could combine all of these ideas in a really tight implementing legislation that I think would demonstrate to the states that this thing is going to work.

Representative Saxton. Senator, there is something else here that's kind of interesting in these statistics. As a percentage of GDP, as it relates to percentage of GDP that we collect in revenue, in 1989, before the 1990 tax increase we were collecting 19.2 percent. And, the year after the tax increase, which is 1991, our revenues had fallen to 18.6 percent of GDP.

And, so there seems to be a kind of a backward slippage here, if you will.

Senator Kyl. It kind of makes supply-side economics look good, doesn't it?

Representative Saxton. It sure does. Well, our beepers are beeping, and so we are going to get back to the House side.

Senator Mack. Yes.

Representative Saxton. Thank you very much.

STATEMENT OF THE HONORABLE DAVID MINGE, REPRESENTATIVE FROM MINNESOTA

Senator Mack. Congressman Minge, do you have an opportunity to make a statement now or do you have to go?

Representative Minge. I will have to go as well. But, Senator Mack, if I may, I will just make a couple of brief comments.

Senator Mack. Sure.

Representative Minge. I have a statement that I would request you allow to be inserted in the record.

Senator Mack. Absolutely.

Representative Minge. And, I realize that Mr. Miller has already explained the legislation that he and I are co-authoring on the House side, and it parallels legislation that you have introduced on the Senate side.

And, I would like to express my appreciation for the hard work that you've put into this.

And, the point that I would like to emphasize, for the benefit of those that have not already been actively engaged in this process, is that the commitment to reduce the deficit, and actually eliminate that deficit, seems to be pretty well abroad in the land. And, it exists here in Congress.

But, the difficulty that we face is one of process, and how do we implement this commitment. And, I think that the Base Closure Commission concept, which my colleague and you have already amply explained here, is the most effective way to address that problem.

And, it, in my opinion, offers us the hope that we can ramp down and, ultimately, by the year 2002 at the very latest, eliminate this tremendous deficit and provide the opportunity for our children to address the problems that their generation will face with less of the interest burden than they would otherwise have.

Thank you very much.

[The prepared statement of Representative Minge appears in the Submissions for the Record.]

Senator Mack. Well, thank you for your comments. And, again, we will include your full statement in the record.

And, I also want to express my appreciation for the effort and the work that you are doing on the House side, working with Congressman Miller and other Democrats to support this concept. Again, I think what we've seen is a change in direction here which says that if we are going to solve this problem, the so-called deficit problem, we had better do it on the spending side, not on the tax side.

And, I appreciate your involvement.

Mr. Minge. And, I think we ought to be bipartisan. And, that's what I appreciate about the opportunity to work with Mr. Miller on this.

Senator Mack. Very good. All right. If you all wouldn't mind -- I guess, Dan, you have got to go, too.

Representative Miller. We have got a vote here.

OPENING STATEMENT OF SENATOR ROD GRAMS

Senator Grams. Well, I just wanted to thank you for coming over. It's nice seeing you again.

But, as you know, I co-sponsored Senator Kyl's bill, the 19 percent, when he was in the House along with me. I also introduced in my Family

First bill a similar commission as Senator Mack is talking about, and also as you both have proposed.

And, I'm just glad that the argument is now over how are we going to cut taxes and basically how are we going to control spending, because I believe we cannot allow a balanced budget amendment to be an excuse to raise taxes. We have to put in some kind of spending control.

So, I know you have to leave. But, again, I want to thank you for being here and offer my help in trying to work out some kind of a plan between those that are being proposed to make sure that we do put a stone wall behind us in this gun fight.

Thanks very much.

Representative Miller. Thank you.

Senator Kyl. Thank you.

Senator Mack. All right. Thank you. I believe, since this is moving along a little bit more rapidly than we had anticipated I think we will take a recess for about 10 minutes.

Senator Gramm is scheduled to be here at 10:15. And then we will move to the second panel as soon as we have completed his testimony.

So, we will recess for about 10 minutes.

(Whereupon, a recess is taken at 10:05 a.m., to reconvene at 10:10 a.m., this same date.)

Senator Mack. We had several members of the House that were here a few moments ago, but they have, I think, their second vote by 10 minutes after 10. Things are pretty busy on that side of the building.

Phil, we are just delighted that you could come by this morning and share with us your ideas and your thoughts with respect to how to control spending. It has been -- let's see, I can use many, many different adjectives about our relationship and working together over the past 12 years in trying to control Federal spending.

I worked with you on the Gramm-Rudman legislation, introduced it in the House with our former colleague, Dick Cheney, and continue to try to find ways to rein in and control both the size and the growth of government because, as you and I both know, less taxing, less spending, less government equates to more freedom. And, that's what it's all about.

So, we are delighted that you are here. And, why don't you proceed?

**STATEMENT OF THE HONORABLE PHIL GRAMM,
SENATOR FROM TEXAS**

Senator Gramm. Well, Mr. Chairman, let me first say that I am very happy to be here. I'm happy to join you in beginning to look beyond the Balanced Budget Amendment to the Constitution.

Obviously, I'm convinced that the vote we will have on the Balanced Budget Amendment to the Constitution is probably the most important vote that has been cast in the Senate since we've been here. The House, on many occasions, has tried to pass it. They've never been successful. They have now succeeded.

So, we literally have the opportunity on that vote to change American history. And, clearly, I am hopeful that we are going to do it.

And, I am confident that without a binding constitutional constraint that we are never, year in and year out, going to be able to control government spending. I think anybody that has any doubt about that has slept through the last quarter century in America.

What we are here today to talk about is what would we do if we had a Balanced Budget Amendment to the Constitution and setting in place a procedure that you would want to have if you knew you were going to have to balance the Federal budget?

I think it's important to note that to this point we have never had a serious budget process. Many of the procedures that we have followed were written by people who never intended for them to work.

The Budget Empowerment Act was primarily aimed at forcing the President to spend money. It was primarily forced at limiting the President's -- focused on limiting the President's power.

It was not primarily written to be a budget act or to control spending. It was to let Congress set spending priorities. We have basically worked from that process since.

What I would like to do, Mr. Chairman, is to very briefly go through a bill called the Balanced Budget Implementation Act. This is a bill that Dick Arney and I introduced last year.

It has been updated somewhat this year. But, to basically review for you very briefly what I think it would do if you had a constitutional mandate that you balance the budget, you knew you were going to have to do it, you had a consensus that said it's time for us to begin to act.

I think the first thing you would want to do is you would want to change the budget process so that the budget became a joint process involving both the President and the Congress. As you are aware, and

many people who follow the process are aware, we currently passed a concurrent resolution on the budget which is not law. It is not signed by the President.

The President is not committed to it. So, our first problem is we really end up each year with two budgets -- Congress' budget and the President's budget.

The two are often different. And, this year, they are going to be dramatically different.

The first change that I think clearly we need to make is to make the budget a Concurrent Resolution so that it has to pass both Houses of Congress, it has to be signed by the President and it actually becomes the law of the land. That would force the President and the Congress -- no matter what the partisan makeup of the Congress is, no matter who is President, it would force them to begin the process by working out a budget that the President is committed to and the Congress is committed to.

And, I would not allow the appropriation of any money for any purpose for the coming fiscal year until that Joint Budget Resolution is passed by Congress and signed by the President.

Secondly, I think it's time to go back to a good idea that Jimmy Carter had that he brought to Washington with him called "Zero Based Budgeting." His own party would never support it.

And, as a result, the whole idea died in Washington, D.C. But, I think it was a good idea. I have a little bit of an update on it.

But, this is how it would work: In the first two years after adopting the Balanced Budget Amendment to the Constitution, we would sunset every program, project and activity of the Federal Government except what I would call "earned benefits."

So, we would sunset every discretionary spending program. As you are aware, Mr. Chairman, as much as 30 percent of discretionary spending is unauthorized. This would require us, over a two-year period, to go back and re-authorize every discretionary spending program in the government.

Many of these programs could not be re-authorized.

Programs like legal services have not been authorized now for some 15 years. And, I would have, in this process, a rule that says if a program is not authorized it cannot be funded.

In addition to discretionary spending and having a sunset provision with zero-based budgeting for discretionary programs, I would do the same for unearned entitlements. Entitlements that are earned are

entitlements that you pay for like social security, railroad retirement, Federal retirement or programs that you earn through service like Veterans' programs.

What I would do is, all entitlements that are unearned, where a person has never paid anything for the benefit either in service or in money, those entitlements would be sunsetted over the two-year period. And, again, to appropriate money, we would have to reauthorize them.

As the Chairman is well aware, we were unable to change welfare for a decade and a half when there was a strong consensus in Congress to do it, because we had to overcome the legislative process. That would have required 60 votes in the Senate and we couldn't do it.

Under this procedure --

Senator Mack. If I could just interrupt you for a second just to get a sense of -- would the sunseting, then, take place, in essence, every year? Would there have to be a renewal?

Senator Gramm. No. How I would do it is, you would have two years to go through all discretionary programs and all of the unearned entitlements. And, at the end of that process, they could not be funded unless they had been reauthorized.

Then, every 10 years after the Census, when we go through reapportionment and we elect Congress based on the new population distribution in the country, you would go through the sunseting zero-based budgeting process again. So, you would do it once every decade.

And, I think doing it after the Census with a new Congress that reflects the new makeup of the country is a logical time to do it.

We would have a super-majority vote required for unauthorized programs. And, what it, in essence, would mean is that we would have to go back and do what every family does every year, and that is look at these programs, see if they are still needed. And, if you could not overcome the legislative process in reauthorizing them, they would die.

We would then address the entitlement problem. And, the proposal that Dick Armey and I had in our bill last year was that we set out over the seven-year period a cap on the growth of non-social security entitlements where the growth of non-social security entitlements is limited by the growth rate of social security.

Senator Mack. Why don't you explain that?

Senator Gramm. Well, let me explain how the growth rate of social security works, and then how it would function here. Social security grows basically for two reasons.

Number one: More people become eligible for social security. And, number two: We pay a cost-of-living increase.

If our current entitlement programs grew only as fast as social security, we would make a dramatic step forward in balancing the Federal budget. The problem is that while social security is growing at about 4.5 percent a year, the other entitlements are growing at about 8.5 percent a year.

So, basically the idea here would be to set out a cap on the aggregate expenditure on non-social security entitlements. And, I think the analogy to this in a family would be that a family looks at the amount of money they have and that sets a cap on what they can afford to spend. And, then they are forced to go back and take the spending recommendations of all members of the family and force them through basically a negotiating process -- in my family, my wife decides. I don't know what your process is.

But, basically, each family has its own procedure. And, we go through the process of conforming what we would like to spend money on to the actual amount of money that we have.

Now, this would not mean, for example, that Medicare would be limited to a 4.5 percent growth rate. But, what it would mean, is if you take all of the entitlements from AFDC to food stamps, to Medicaid, to Medicare, to any other program that is an entitlement, the aggregate level each year during this transition period to a balanced budget would be limited to a growth rate driven by eligibility and by the Consumer Price Index.

What this would do, each and every year, it would force us to go through all the entitlement programs and to institute yearly reforms. It is a tough process, but it is exactly the way that families do it.

Senator Mack. If I can again make another editorial comment, what you really are doing here is reversing the process. We really now kind of ask what is it that we can do, how far can we go with many things, you know, how far would we like to go, without any real kind of a consideration about what the resources may be to pay for them.

There is no -- there is no restraint, if you will. It's the desire of our heart, driven by our compassion for our fellow man, that kind of sets up where we are headed, with no connection to what these costs are.

And, what you are saying is that while each of us has deep concern for our fellow man, there is the rational side of this that says that we have to deal with some economic factors here; and, that is how much money do we have; and, since we have a limited amount, how are we going to work through our priorities.

Senator Gramm. I think the analogy to a family would be that we give every family member a check that will cover what they have planned to spend and then we try to get people together to rationalize the process. It is often difficult when you do it that way.

And, in our case, it has proven to be impossible. I think we ought to re-institute fixed deficit reduction targets beginning in Fiscal Year 1996 so that we lock into law the requirement that the deficit be reduced in proportional increments to achieve a balanced budget in 2002, when the constitutional amendment would require it.

I would enforce these targets with the old Gramm-Rudman sequester process which Bill Clinton killed as his first official act as President. I would put them back into place so that Congress would know exactly what the deficit could be in Fiscal year 1996, and in each and every year, until we get down to zero in the year 2002.

I would protect social security by having a super-majority point of order that would have be waived for anybody to do anything that weakened the Social Security Trust Fund.

And, I would extend the discretionary spending caps that are currently in place, something that the President has recommended that we do, and something that I am confident that we will do.

And, finally, something that you, Mr. Chairman, have proposed, a "spending commission." I think should be part of this process. I think that it should be based, as you have recommended, on the Base Closure Commission.

And, what we would do, having set the process into place, we would establish, in addition to all that I have outlined, we would empower a commission made up of people like Milton Friedman. We might want to go back and get two OMB Directors who are Democrats, two OMB Directors who are Republicans.

I think we should exclude Members of Congress, anybody holding any current political office. And, I think, just as the Base Closure Commission works, we should give them a charge: Come up with \$50 billion worth of discretionary cuts over a five-year period or a seven-year period. Come up with \$50 billion worth of entitlement reductions over the same period. Have them submit their conclusions to the President. Have him make a decision as to whether to send that to Congress, and then have Congress have to override it or have to affirmatively vote for it, depending on how we wanted to do it, for it to go into effect. But, don't make it amendable.

I think, quite frankly, that in breaking this threshold to cut programs that we all know in our hearts ought to be cut, have to be cut, and we all know that if we applied any kind of test that they would never ever survive. I think that a base closure commission-type approach early in the process would be very, very beneficial.

Now, let me conclude, Mr. Chairman, by saying that people will say, "Well, this is all process. And, if we know we've got to do something, why do we need a process?"

Well, I think we need a process for the same reason that families write budgets. I think we need a process for the same reason that we have rules and regulations in our society.

I think the bottom line, without process, without requirement, without constraint, for 25 years, every single day, we have spent more money than we have taken in. In 10 years, the interest on the debt will exceed the whole Carter budget in 1977.

We could, if we didn't have to pay the additional interest that will be due, by the year 2002 under the current process, if we didn't have to pay that interest, we could solve the long-term solvency problem with social security. If we didn't have to pay that interest, we could have a dramatic reduction in taxes on every working family in America.

This is real money. It's going to affect the future of real people. And, that's why we have to deal with it.

[S.149 can be found in the Senate Document Room.]

Senator Mack. Well, again, I thank you for your testimony and your input this morning. We have got just a couple of minutes, if you don't mind.

Senator Gramm. Sure.

Senator Mack. One of the things -- and this is getting off the process. The reality is we have had a process. It's a process that has failed.

And, I remember when I first put this commission idea together, it was kind of from the perspective that does it make sense to continue to go home year after year after year and say, "You know, we failed again for the 25th year in a row with the present process?"

I mean, people, it would seem to me, would begin to say, "Well, why don't you look at changing the process?" So, I think it is right that we focus on it.

But, let me just ask you -- I know that there are those out there -- and you've heard them and I just want to throw this question at you: We are talking about cutting spending and we are talking about actually reducing

the rate of growth of spending. And, people are going to say, 'this is going to be detrimental to the economy.'

What's your reaction to that?

Senator Gramm. Well, let me give you my reaction, both in terms of the positive reaction and the negative reaction. First of all, part of the logic about "it's going to hurt to balance the budget," is based on the proposition that we can run another trillion dollar deficit over the next five years, and that we can stay exactly where we are.

The average American family with two children sent one out of every \$50 it earned to Washington in 1950. Today, that family is sending one out of every \$4.

And, just to pay for the government we have committed to, over the next 20 years that family is going to be sending one out of every \$3 to Washington, D.C. And, that's with the deficit exploding.

So, the point is, we are going to be spending another \$138 billion a year in the year 2002 on interest payments alone if we do nothing. Now, where is that \$132 billion coming from?

And, if you didn't have to pay it, what kind of tax cut could you give with \$132 billion a year? Well, let me give you an example.

With \$16 billion a year, you can give a \$2,000 education tax deduction for every child in every family in America. That's with \$16 billion.

We are talking about \$132 billion that we are simply going to give away in terms of interest payment on the debt.

Secondly, if the government is not borrowing the money, then the money will go into the private sector to build new homes, new farms, new factories to generate new economic growth. So, to the people who say, "Look at what we are going to lose by cutting spending," I think it's important that we respond by saying, "Look at what we are going to gain by cutting spending."

And, I think it ultimately does go back to the phrase you used earlier -- and this is not a debate about how much money is going to be spent, it is a debate about who is going to spend the money. Is the government going to spend the money, or is the family going to spend the money?

We know government. We know the family. And, we know the difference.

And, I believe, Mr. Chairman, that there is a strong consensus in America today that government spends too much money and families spend too little.

Senator Mack. Thank you. Senator Grams.

Senator Grams. Thank you very much. Good morning, Senator.

Senator Gramm. Good morning.

Senator Grams. I really don't have much of a question except for some comments. And, I think Senator Gramm, like myself, and I think Chairman Mack as well, support what we call the super-majority in the Balanced Budget Amendment, which would make it a lot harder for Congress to raise taxes than to spend the money.

And, there's something like a dozen states just about that have super-majorities. And, in those states, tax reductions have amounted to about 2 percent a year for the residents of those states.

And, if you calculated that out nationwide, it would be about a \$30 billion reduction. So, a super-majority does help to reduce taxes.

But, without that, which it looks like it probably won't be part of the bill of the Balanced Budget Amendment -- it did not pass the House and it doesn't look like it will pass the Senate, but without it, I think it's even more important that some kind of spending reduction mechanism is part of any efforts that this Congress makes, because we cannot allow a balanced budget amendment to be an excuse by this Congress to go out and raise taxes even higher on the American citizen.

So, I know it's fairly important that -- and I'm glad this argument -- like I said, even though it's a bipartisan effort this morning, I think it's very important that the arguments center around how are we going to put in place a mechanism. The opponents of a balanced budget amendment are calling for those who support it to lay out all those spending cuts over the next seven years.

And, I think what's important is that we put in place the mechanism for this Congress and the next Congresses to fall in line and say, "these are the goals." And, I applaud you on saying it's not what we are going to lose by cutting spending but what we have to gain.

And, I agree, and I think you agree, that the whole process is backwards. We should look at the revenues before we decide our expenditures.

Senator Gramm. Well, if I could just respond very briefly, Mr. Chairman, we know what their plan is. It's the Clinton budget.

The deficit is going up for three years in a row, a new trillion dollars of debt. We know what their plan is.

Finally, this whole notion that you should never set about doing any important activity until you can say exactly how you are going to achieve it is counter to everything we experience in our real lives. How many

children, when they go off to college, know exactly how they are going to pass all those courses? They don't.

When people set up businesses, they don't know how they are going to overcome the thousand and one obstacles they are going to incur. They don't even know what most of those obstacles are.

But, they have faith that they can do it. They undertake it. Some don't make it. Many do.

And, finally, nobody would ever get married if you had to say in advance exactly how you were going to work all these things out. I'm sure ya'll have heard my statement that after my wife turned me down for the second time, I got down on one knee in San Antonio and said, "If you will marry me, I will spend the rest of my life trying to make you happy." She didn't look at me and say, "Well, how are you going to do it?"

(Laughter.)

Senator Gramm. She judged whether I was serious about it. And, 25 years later, I'm still working at it.

Senator Grams. Senator, just one final comment. For those opponents of a balanced budget or a spending mechanism put in place, do you think it would be fair if we would turn the tables and ask the opponents of this where are they going to raise taxes to meet these obligations if we don't get serious about cutting the deficit?

Senator Gramm. I think it's a very fair question. I wouldn't expect them to give you the answer.

They are confident that if we continue to raise the debt that some day we will have to raise taxes. And, I think one of the things that we Republicans have to understand and admit to ourselves is, if we are going to let them spend this money, sooner or later we are going to have to pay for it.

And, we don't want to raise taxes. And, I'm not going to vote to raise taxes.

The government is spending 22.5 percent of GNP. I would like to bring that down to, first, 19 percent and then 17 percent. And, if we could put the Tenth Amendment to the Constitution in place and start cutting taxes and cutting spending on things that are basically state matters and let states decide whether to impose taxes to pay for them, I think we could even get it down to maybe 15 percent.

Senator Mack. The situation is that there is a vote in the Senate. I would suggest, Senator Bennett, you take a couple of minutes, and Congressman Ewing if you would like to as well, and then we will recess for the vote.

OPENING STATEMENT OF SENATOR ROBERT BENNETT

Senator Bennett. I will do it very quickly. Let me just draw an analogy. And, I know my senior colleague from Texas is the champion analogy drawer, so I hope I can come up to his standard.

We keep hearing in this debate that the government is like a family and if you have a deficit, you have to do one of two things. You either have to get your boss to give you a raise or you have to cut back on the kid's allowance or whatever you are spending.

In fact, in my view, the government is not like a family. The government is like a business.

And, having run businesses, both successfully and unsuccessfully, I know that there are three ways with which a business must deal. Number one: It can raise its prices. That's the equivalent of raising taxes. Very often, when you raise prices in a business, you find that your revenues go down because people don't want to buy your product. You have just priced yourself out of the market.

And, we have found in the government again and again that when we raise tax rates, we do not automatically raise tax revenue.

Number two: You can cut spending. You can cut overhead. Sometimes, business will cut overhead so badly it will cut out its ability to compete.

And, cutting spending is not automatically the way to closing the deficit.

Number three: A business can increase its sales. Holding its overhead constant and the margin that it makes on each widget it sells, if it sells twice as many widgets, that becomes the engine that takes care of the deficit and creates dividends and all of the rest of those good things that you want to have happen for your business.

In too much of this debate, we have not spent enough time focusing on the number three aspect of the government which is to take steps that will increase the economy as a whole.

I saw a study by some economists over the weekend where they took the President's baseline in the President's budget of spending and left it in place. Then, they took revenues and posited one-half of 1 percent more growth than was actually in the President's proposal. And, by the year 2002, they were showing a surplus, leaving the spending absolutely untouched.

I know we tried to deal with that with the Reagan years. We've been beaten over the head by historians who didn't understand what happened in the Reagan years.

And, we keep being told that it was the disastrous Reagan tax cut that caused this whole problem. I do not believe that.

And, I think we must revisit the issue of making the economy grow faster or, in the analogy, increasing sales in the business as a whole as one of the major ways to grow ourselves out of this deficit along with the binary attitude, "Well, we either cut spending or we raise taxes."

There is a third -- I won't say alternative, because I think the smart businessman does all three. When I've run a business, I've raised prices on products that don't show any particular price resistance in the market. Even when the margin was already 50 percent on those products, if the market is willing to pay, it I will take a margin of 75 percent.

And, then I have cut prices on products that have low margins, because I wanted to increase the sales. And, I've cut spending. And, I've grown sales.

And, we need to do all three, not just the two. In the time we have, is there any comment you have?

Senator Gramm. Well, I think the Reagan program worked in terms of the economy responding to lower taxes. The problem is spending grew faster than the revenues grew.

And, I think what we have got to do is both. We have got to encourage people to work, save and invest. And, we have got to control government spending.

If we do those two, we are going to be successful. The economy is going to perform better.

People are going to have higher living standards. And, they are going to have more freedom. And, they are going to have less government.

Senator Mack. Congressman Ewing.

OPENING STATEMENT OF

REPRESENTATIVE THOMAS W. EWING

Representative Ewing. Senator Gramm and Mr. Chairman, excuse my tardiness. And, I wish I could have heard your whole testimony and the comments.

I just want to say that I encourage the Senate to pass the Balanced Budget Amendment just as soon as possible so that we can get on to the important work of implementing it. And, I know that probably everyone in this room is doing everything they can.

And, I thank you for it.

Senator Gramm. Thank you.

Senator Mack. Thank you. We will recess and be back after the vote. (Whereupon, a recess is taken at 10:40 a.m., to reconvene at 10:56 a.m., this same date.)

Senator Mack. I thank you for your patience. And, I understand that Mr. Norquist, you have a schedule that I guess is more difficult than the others.

And, with that in mind, why don't we go ahead and let you proceed.

PANEL II

STATEMENT OF GROVER G. NORQUIST, PRESIDENT, AMERICANS FOR TAX REFORM

Mr. Norquist. Thank you very much. I've submitted written testimony, but I would just like to briefly say I think all three ideas on the table -- S.202, the Spending Reduction Commission, is extremely sound, Senator Gramm's idea of sunset provisions, as well as sequestration -- all move us in the correct direction as well as the Federal spending limits of Senator Kyl in S.J. Res. 3.

The central question here is not an economic one. It's a political one.

Do we want the government to get bigger and have more power and more authority in our lives and over the lives of the American people and the American families? Or, should the Federal Government become smaller and the state governments become smaller and leave more room and more decision-making and more resources and more autonomy in the hands of individuals? That's the decision to make.

A balanced budget amendment by itself could take you in either direction. It could either take you the route of tax increases to pay for the spending programs that some people would prefer, or it could take you the route of reductions in spending.

And, so, the implementing legislation and these three particular ideas, I think, are critical to whether or not the Balanced Budget Amendment is ultimately a good thing or a bad thing. I would simply add to that the importance, I think, if not now, eventually, of moving toward super-majority requirements for tax increases.

It came up earlier, nine states have such rules at present, a requirement for super-majority. Florida would have if the Supreme Court of Florida was more sympathetic to the initiative process. But, two years from now, in 1996, I believe Florida will have a super-majority requirement through the initiative process.

Montana will do that also in 1996. And, I returned this morning from Ohio where Ken Blackwell, the State Treasurer, has just launched an effort to require a super-majority at the state level there.

So, I think that the idea of saying, "Yes, we want a balanced budget amendment, but let's make it clear we want to balance it by reducing spending rather than increasing taxes," is particularly important. All avenues that move in that direction are extremely helpful. All implementing legislation.

I would also urge the importance of a constitutional restraint on the ability of governments, not just at the Federal level but at the state level as well, to raise taxes.

Thank you very much.

[The prepared statement of Mr. Norquist appears in the Submissions for the Record.]

Senator Mack. All right. Well, thank you. And, again, I realize that there is a restraint on time.

And, if you have to leave, then we understand that.

Mr. Norquist I appreciate that.

Senator Mack. Mr. Cobb, we will go to you next.

**STATEMENT OF JOE COBB,
JOHN M. OLIN FELLOW IN ECONOMICS,
THE HERITAGE FOUNDATION**

Mr. Cobb. Thank you, Mr. Chairman. I am very pleased to be here.

I'm not going to read my written testimony, which I've submitted, if that can be entered in the record. I might make a reference to it, but basically I want to just quickly go through the central points there.

The Heritage Foundation has just published an Issue Bulletin that I wrote analyzing your and Representative Miller's proposal for a Spending Reduction Commission. My general conclusion is that it is possible that there may be no other way to arrive at the implementation of a balanced budget.

Opponents of the Balanced Budget Constitutional Amendment are carrying on a false debate against the supporters of the balanced budget. We hear this argument all the time. They say, "Just tell us how you will do it," or, "Give us a full five-year plan of spending cuts." But, this is a false debate for at least two reasons.

To save time, I am going to skip over the first argument in my written testimony against five-and 10-year long-term planning and focus on the

second problem of circular-majority, which I discuss on pages 5 and 6 of my written remarks.

Congress is a collective decision-making body. One thing economists can prove about collective or group decision-making is that sometimes a group can't make any decisions at all.

All you can get is an inconsistent result, which we call a circular majority. In my testimony, I spell this out more technically, but let me give you a numerical example.

Assume nine people had to vote to cut one of three programs. If three people voted to cut Program A, three people voted to cut Program B and three voted to cut Program C, there would always be a majority of six against any program cut.

Take another example by assuming the voters all love one program and hate another one, but they don't care either way about the third program, so they vote with their friends. Taking the votes one at a time, the supporters and opponents of each program will tie each other. And, the other three voters who don't care very much will decide which program wins.

But, when you try to choose the next program to cut, you now have a different mix of voters who care passionately about one or the other. And, again, the ones who don't really care and just vote with their friends decide the outcome.

It is easy to get the circular result in my diagram on page 6 where you see it goes around in a circle. I believe the opponents of a balanced budget constitutional amendment understand this problem very well.

Since you can put together a long series of majorities in favor of not cutting programs, the challenge to "tell us how you will do it over five years" is just a trap in this false debate.

There is a strong national majority today in favor of a balanced Federal budget. Opponents want to change the subject in that debate to replace the majority public opinion today in favor of it with all of the circular-majorities that can be constructed against it from all of the combinations of possible spending cuts.

But, a spending reduction commission could provide Congress with an alternative to the dilemma of circular-majorities against spending cuts. It would be like a jury of average Americans, chosen to look at the facts and the evidence and find the guilty, lowest priority programs in the Federal budget.

The Spending Reduction Commission would take the spending cut process one year at a time and not try to make a fictional five-year plan.

It would be like an exploring party cutting through a jungle with a compass. There is no way to have a detailed map through a jungle.

In American constitutional history, we have faced this problem before, almost immediately after the Revolutionary War when the Articles of Confederation proved unworkable. In The Federalist Papers, Number 75, Alexander Hamilton described how the European Powers looked at Congress as a disorganized body unable to make foreign policy.

Other governments held the United States government in contempt. He was describing the problem of circular-majority in foreign policy. So, we created an Executive Department, headed by the President, to conduct foreign policy.

Congress always points to the President to submit a balanced budget. But, the President is just another politician in our domestic politics.

The President's budget is dead on arrival in Congress. Congress is the final authority over taxing and spending. But, there is no way the Congress can solve its problem of circular-majority.

Some opponents will say that a spending reduction commission is an abdication of congressional responsibility. But, once again, it is part of the false debate to say that Congress should simply sit down and do the job. That is precisely how the trap of circular majorities produces legislative gridlock and unbalanced budgets.

The Spending Reduction Commission as an idea is not an evasion of responsibility. It is a tried and true way for a gridlocked Congress to fulfill its responsibility, in the same way that the Constitutional Convention, by creating the office of President to conduct foreign policy, in 1787 solved the circular-majority problem back then.

I have spent most of my time on the proposal by yourself and Representatives Miller and Minge, because I really see your proposal for a spending reduction commission as the most feasible plan.

I think the proposal of Senator Kyl, S.J. Res. 3, for a Spending Limitation Amendment to the Constitution, is an excellent idea. But, I don't see his proposal as essentially addressing the problem of circular-majority which, I think, is the central dilemma in the balanced budget debate.

The proposal by Senator Gramm, S.149, is also an excellent proposal. I believe in setting annual targets for deficit reduction, zero-based budget analysis of programs and agencies and sunseting programs after 10 years. Limiting the growth in entitlements is clearly at the heart of the problem today in the Federal budget.

All of these ideas would be giant steps in the direction of fiscal control. But, none of them really get to the central problems that I have pointed to -- the fallacy of long-term planning in the Federal budget, and the problem of circular-majority.

All of the proposals in S.149 would work better if the Spending Reduction Commission first did the job proposed for it, and then sent its list of cuts to Congress for final passage. And, I was very pleased to see that Senator Gramm made exactly that remark.

The idea for a sequester, which is the enforcement mechanism in Senator Gramm's plan as well as in the House companion bill of yours, with across-the-board cuts in everything, is a perfectly proper doomsday device provided it is small enough to be used. But, a sequester that is large enough to put the fear of God into the hearts of congressmen is also large enough for them to vote to repeal it. That is what happened at Andrews Air Force Base in the summer of 1990.

But, I much prefer the deliberative approach to spending cuts that a spending reduction commission would make. There are some programs in the Federal budget that genuinely are more important than others.

In my written remarks, I make the point that the Tennessee-Tombigbee Canal ought to be allowed to silt up before you cut one cent from the Department of Justice. An across-the-board sequester, of course, doesn't make that deliberative judgment, but a spending reduction commission could.

Under Representative Miller's bill, H.R. 822, there is a sequester provision in Section 6(a). This sequester would only be used if Congress or the President failed to act. It would make the deliberations of the Spending Reduction Commission more important politically, because it would establish a more unpleasant alternative.

I would favor the stronger version of the legislation, because I believe the American people really do want to fix the problem of unbalanced budgets. But, as my old professor, Milton Friedman, warned us, we should not allow the best proposal to become the enemy of a very good one that might actually be passed by Congress.

Thank you.

[The prepared statement of Mr. Cobb appears in the Submissions for the Record.]

Senator Mack. Thank you for your testimony. And, as a result of Mr. Norquist having to leave early, I did not read a background.

And, I think, frankly, each one of you should have the opportunity to have that background read. So, if I can just make several comments about Mr. Cobb, then I will introduce Mr. Lewis.

Mr. Cobb is The Heritage Foundation's John M. Olin Fellow in Economics, specializing in international trade and competitiveness. Previously, he was the Republican Staff Director of the Congressional Joint Economic Committee before his appointment as Chief Economist for the Republican Senate Leadership.

In the Reagan Administration, he was Deputy Director of The White House Office of Policy Information, and an economic advisor at the State Department with the U.S. Mission in the Organization of American States.

He is a member of the American Economic Association and had served as President of the Washington, D.C. Chapter of the National Association of Business Economists. And, again, we appreciate your comments this morning.

Mr. Cobb. Thank you very much.

Senator Mack. Our next panelist is Marlo Lewis. He is the Executive Director of The Competitive Enterprise Institute, a free market advocacy and research organization which emphasizes the marketing and implementation of classical, liberal ideas and believes limited government and competition best serve the public interest.

Mr. Lewis holds a Ph.D. in government from Harvard University. He previously served as Director of Research for Citizens Against Government Waste.

Before that, he was staff consultant to the U.S. House Foreign Affairs Subcommittee on Trade and International Economic Policy. He was a policy analyst with the U.S. State Department's Bureau of International Organization Affairs and Bureau of Inter-American Affairs.

He has worked as a public affairs fellow at the Hoover Institute and a professor of political theory and American government at Claremont -- McKinna College in Claremont Graduate School in California.

He has written several articles on government waste and American government. So, Mr. Lewis, welcome.

And, we look forward to your testimony.

**STATEMENT OF MARLO LEWIS, JR.,
EXECUTIVE DIRECTOR,
THE COMPETITIVE ENTERPRISE INSTITUTE**

Mr. Lewis. Thank you very much, Mr. Chairman. I want to second the overall comment of Grover Norquist.

The Competitive Enterprise Institute thinks all three of these proposals are wonderful ideas. We very much like the idea of reducing the Federal budget over time from its current level of about 23 percent of the gross national product down to 19 percent.

This would be a phenomenal boost to the economy. It would also give people inside the government an incentive to make the economy grow. And, that would be a very different order of things.

We also think there are some very much needed and long overdue reforms in Senator Gramm's proposal -- the sunset provisions, the zero-based budgeting, holding the overall growth of entitlements to the growth rate of social security. Those are all fine ideas.

The proposal that I wish to discuss at greater length, though, Mr. Chairman, is yours, which we are very enthusiastic about. We view it as a much needed corrective to the Balanced Budget Amendment that is most likely to pass in Congress.

The Competitive Enterprise Institute was a very strong supporter of the Barton Tax-Limitation Balanced Budget Amendment that did not pass in the House. And, we are very much cheered by the knowledge that the House leadership has committed itself to introduce a separate Tax-Limitation Amendment next year and bring it to a vote on tax day, April 15th, in a presidential election year.

We think this means that tax limitation might have a real chance of winning in 1996. But, in the meantime, I think it is essential that implementing legislation be adopted to ensure that the Balanced Budget Amendment that just passed in the House, the Stenholm Amendment, some version of which is likely to pass in the Senate, does not turn the Constitution into a tax-increase engine.

And, I think that's a very likely outcome of such an amendment unless it is properly contained by legislation. There are a number of reasons for that.

One is just the overall dynamic, which drives government growth. Chronically unbalanced budgets are a symptom of a deeper imbalance in the body politic.

It's an imbalance of power between taxpayers, on the one hand, the people who pay for government, and tax consumers, which is everybody who gets some kind of material benefit from the government.

Because spending programs have concentrated benefits and dispersed costs, because it's much easier to mobilize a small group than a large group like taxpayers, the tax consumers are almost always better organized and more highly motivated than taxpayers to influence legislation.

Also, I would note, and meaning no disrespect to anyone in this room, public officials are tax consumers. Rising tax burdens increase the power, the wealth, the importance of the political estate vis-a-vis the private sector.

And, although many individual legislators, such as you two gentlemen, can be counted upon to defend the interests of taxpayers, politicians, as a profession, have what amounts to a collective interest in raising taxes. And, it is public officials who actually make fiscal policy.

So, in order to impose real fiscal discipline on Washington, a balanced budget amendment has to be specifically designed to counteract the political advantages that tax consumers enjoy in the political process.

The Barton Amendment doesn't do that. In fact, by requiring a three-fifths super-majority to run a deficit but only a simple-majority to raise taxes, it invites Congress to balance the budget on the backs of taxpayers. In fact, it provides a political cover to big spenders. A big spender can say, "Yes, I voted to raise taxes. The Constitution made me do it."

So, I think, taken straight and unalloyed, a Stenholm-type Amendment will actually add the moral weight of the Constitution to the self-serving demands of tax consumers. And, this, I think, creates special risks for the GOP.

For years, Republicans have been blaming Democrats whenever Congress raised taxes. And, I think some members of the Republican Party still think they will always be able to pin that tax tail on the Democratic donkey.

But, I don't think that's possible any longer, because Republicans are in the majority. If Congress raises taxes, Republicans will be responsible.

And, I think we could see taxes go up, not in the next two years, because everybody is now talking about tax relief. Whether it happens is another matter -- but, there is no possibility, in my mind, that Congress will raise taxes in the next two years. But, as we approach the year 2002

when the budget will be balanced, the pressures will grow to adopt moderate deficit reduction packages which include some new taxes.

Many lawmakers of both parties will come under enormous temptation to evolve in office. And, we could see the GOP morphing into a pro-tax party. And, I think this would be a political disaster for the GOP, because you can't very well be a party of limited government and economic opportunity and also be a pro-tax party.

I think the Stenholm Amendment creates political risks for Democrats as well, because the elections, the November elections, were a resounding call for less government, for smaller government. And, one of the popular features in the Contract With America was the tax relief limitation provisions.

So, if we see another round of bipartisan tax increases, I think the electorate will punish both parties.

Now, what we like so much about Senator Mack's proposal is that this will force Congress to balance the budget by reducing spending by a considerable amount, \$45 billion a year, and it will do it through a tried and proven formula, which is the Base Closure Commission formula. I think it's important to understand why the Commission formula worked.

For 10 years, Congress was unable to close a single military base. And, then, all of a sudden, hundreds of bases were closed.

Sacrifices are easier to accept when you know that everyone has to make them. And, what the Commission approach does is make spending cuts more palatable to each group of beneficiaries by putting many groups in the same boat.

There's also no constituency for isolated cuts, no constituency for eliminating one base in one district, because the taxpayer payoff is minuscule. But, if you raise the stakes by putting scores of wasteful expenditures on the chopping block, then taxpayers will see the benefit and demand action.

There are many fine points in your legislation, which I think are worth mentioning if I have the time, Senator Mack. First of all, I think it puts everybody into the bargaining situation.

OMB, CBO, Congress, the President, the two Parties, they all have important responsibilities. Agreement is required by all the relevant actors at each stage of the process.

Secondly, the Commission gives Congress the chance to be a hero and make these cuts on its own. But, if that doesn't happen, there is this fail-safe mechanism.

And, I would like to conclude with the observation that chronic \$200 billion deficits are only the most obvious sign that our government has grown to the point where it is no longer affordable. And, we should remember, echoing what Grover said, that eliminating the deficit is not really an end in itself, but a means to the larger end of curbing government's growth.

The deficit is a problem mainly because it fuels government expansion by disguising the true cost of government by shifting those costs on to future generations.

All three of these proposals that this Committee is hearing today have the right ultimate objective -- cutting spending so that the American people can once again have a government they can afford.

Thank you very much.

[The prepared statement of Mr. Lewis appears in the Submissions for the Record.]

Senator Mack. Thank you, Mr. Lewis. Our next panelist is Mr. Thomas Schatz. He is President of Citizens Against Government Waste and the Council for Citizens Against Government Waste. He is a nationally recognized spokesman on government waste.

Mr. Schatz is no stranger to Congress, having testified on government waste issues before Committees of the United States Senate and the House of Representatives, as well as the State of Maryland. Prior to joining Citizens Against Government Waste, he spent six years as Legislative Director for Congressman Hamilton Fish, Jr.

Welcome.

STATEMENT OF THOMAS A. SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE

Mr. Schatz. Thank you very much, Mr. Chairman. I am very pleased to be here this morning.

You and I have discussed, in fact, directly your Spending Cuts Commission. And, our organization has committed itself to do whatever we can to get it through the Senate of the United States and the House of Representatives.

We think it's extremely critical, after the Balanced Budget Amendment goes through -- and we are doing everything we can on that as well -- to have a spending cuts commission and work within the context of Senator Gramm's bill, and Senator Kyl's concepts of spending limits. It's the only way that we are going to make sure that Congress does not raise taxes to balance the budget.

And, that would be one of the worst things we could do, because it has never worked before. The current process has failed to prevent deficit spending or the enormous national debt that will destroy the standard of living for future generations.

The past laws to restrain fiscal irresponsibility have been watered down or simply ignored. Only with the constitutional amendment to balance the budget, followed by strong implementation legislation, will we be able to get things under control and do what we need to do to preserve the future for the next generation and beyond.

That's why Citizens Against Government Waste and our lobbying group, the Council for Citizens Against Government Waste, support the Craig/Hatch/Simon Amendment. As other people have mentioned, Marlo and Grover, we would prefer the tax limitation of the Barton Amendment.

But, we will take what we can now and move ahead. And, using the implementing process that Senator Gramm has described, and the ones that are contained in your legislation, we would hope we would prevent any possibility of a tax increase.

Citizens Against Government Waste issued last September a report on entitlement reform in which we proposed sunseting entitlements. And, that is one provision of Senator Gramm's bill that we are extremely pleased to see.

Sunseting discretionary and non-earned entitlement programs forces them to rejustify themselves. It eliminates the perpetual opportunity to appropriate funds for programs which have not been reviewed by the authorizing committees, sometimes for decades.

Citizens Against Government Waste yesterday released its 1995 *Congressional Pig Book Summary*. We discovered one program -- it's the Lincoln Home project in Springfield, Illinois -- that was first authorized in 1971. And, 24 years later, they are still claiming that it's "authorized," therefore, our criteria don't quite fit and it's okay.

I don't think that's okay. I think we need to change our criteria without any question.

There are other things -- the Franklin Delano Roosevelt Memorial -- in the 1950s it was first authorized. They also promised to use private money, which they aren't doing either.

So, these are the kinds of things. They are small, but they grow. And, they also have an impact on how Congress views pork-barrel-spending.

Marlo, when he worked with Citizens Against Government Waste, wrote a wonderful piece about how pork debases the political process.

And, it really does, because it allows members to claim credit for doing something for the folks back home.

And, I always say that you should say, "Wait a minute, what are you doing to me," not "What are you doing for me," because, of course, Members vote for all the pork around the rest of the country.

We have also taken a look at sequestration, as required in the Gramm bill. That is really the last resort, Mr. Chairman.

It would not specify which programs would stay, which programs would go. That's really the beauty of your Spending Reduction Commission.

It would make those decisions and would lay them out on the table. And, Congress would be forced to make that choice.

Here is everything that we have been trying to do for many years, everything that has been on the table. There's tons of plans, tons of recommendations.

We've got prime cuts. Marlo helped put that together for us several years ago -- a trillion, \$.2 trillion. It's all there. It's all on paper.

It's a good working document from which to draw the spending cuts. And, it includes Congressional Budget Office recommendations and many others.

Our preferred method of reducing entitlement programs is to go through each, one by one, search for ways to cut benefits, limit eligibility, or force recipients to pay more in premium fees or other offsets. Now, you can change the rules.

You could limit who qualifies, reduce benefits, change taxation. It's an attempt to put individual entitlement programs on a sound financial footing.

Some are growing faster than inflation. Others are growing slower than inflation.

It's, in a sense, unfair to punish those that have been under control because of the other ones that are out of control.

The Grace Commission provided several principles for entitlement reform, including reducing administrative costs, which is never looked at enough here on Capitol Hill, consolidating programs to better target funds, reducing the number of uncoordinated programs that are attempting to serve the same objectives, and improving Federal agency accounting systems to provide accurate data on total administrative costs and even redefining poverty statistics to include in-kind Federal transfer payments.

You could get this data through a subsidy form similar to a W-2 form issued to wage earners. If you look right now, when you go to OMB and you say, "this person is on food stamps and AFDC and several other programs. How much money are they getting from the Federal Government," they couldn't tell you.

And, that's something that I think is worth taking a very close look at, because we don't know what these people are getting. And, we are not saying they are not poor and they don't deserve some money.

We are saying that the government has no idea what is going out there and what is duplicative. It's -- looking, again, at homeless programs. There are hundreds of homeless programs, but homelessness is not a problem that has been solved.

We have to find things that work. And, that's one of the things that a spending reduction commission could do, as opposed to a huge sequester which cuts things off that may or may not be good, bad or indifferent.

And, spending limits are an integral part of the balanced budget debate. We have endorsed in the past Senator Kyl's bill when it was over -- I think it was over in the House. We did the same thing.

And, we think it's an excellent way to bring all of this under control. But, given the reality of the Balanced Budget Amendment currently being considered, of course, the spending limit or the tax limit is certainly something that will have to come up after we hopefully pass the Balanced Budget Amendment, as it passed in the House.

Balancing the budget will still require Congress to make decisions on where and how to spend our tax dollars. But, as George Will recently noted, it's not really hard work to simply restrain the growth of spending in order to balance the budget.

The \$45 billion a year really shouldn't be that difficult. But, again, it is politics. So, we don't expect it to be that easy.

Combining the approaches being discussed this morning will assure that as we move ahead after a balanced budget amendment is adopted, that the budget is balanced in a way that the taxpayers voted for last November, by cutting spending, cutting the waste and not increasing taxes.

Thank you very much, Mr. Chairman. I would be glad to answer any questions.

[The prepared statement of Mr. Schatz appears in the Submissions for the Record.]

Senator Mack. Thank you for your testimony. And, then our next panelist, Mr. Martin Regalia, is a Vice President and Chief Economist of

the U.S. Chamber of Commerce, the world's largest federation of companies, local and state chambers of commerce and trade and professional associations.

Prior to coming to the Chamber in April of 1993, he was Director of Economics and Research for the Savings and Community Bankers of America. He has worked for the National Council of Community Bankers, the Congressional Budget Office, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation.

So, again, welcome. And, we look forward to your testimony.

**STATEMENT OF MARTIN A. REGALIA, VICE PRESIDENT,
ECONOMIC POLICY AND CHIEF ECONOMIST,
U.S. CHAMBER OF COMMERCE**

Mr. Regalia. Thank you. We appreciate the opportunity to be here today to discuss the implementation mechanism for a balanced budget. And, we commend you, Mr. Chairman, for holding these important hearings.

Let me begin by reiterating the Chamber's strong support for a balanced budget amendment. We believe that large and growing Federal deficits reduce savings and investment, stymie income and job growth, reduce productivity and lower our standard of living.

And, we know that these deficits ultimately will lead to bigger government and more taxes. We know, as well, that the only effective way to balance the budget is with reductions in government spending, not increases in taxes.

Now, the point of today's hearing is to discuss a blueprint or a plan for achieving a balanced budget and three particular approaches. We believe that any implementation plan must include certain basic components, a clearly defined goal, a sensibly selected interim targets, an error corrections mechanism and an enforcement mechanism.

The primary goal of the process, as stated in the Balanced Budget Amendment, is clear -- to balance the budget. But, merely equating spending outlays and tax revenues is only half the solution.

The budget must also be balanced at a level that the economy can afford. The goal is not just balance, but smaller government as well.

Because our deficits have persisted for over a quarter of a century, the solution will be neither quick nor easy. Congress has recognized this problem and specified a date for completion that provides sufficient time to reach the goal without undue cost to the economy.

To ensure that we don't squander this interim time period, however, Congress should choose appropriate interim targets, both to guide policy and to gauge its effectiveness. Such interim targets can be specified in absolute terms, as Senator Gramm did in his bill, or in relative terms, as Senator Kyl has done in his bill.

Both approaches have pros and cons. But, both can be successful and part of the solution.

The next piece of the implementation puzzle is to define an error corrections mechanism. I think a major drawback of the earlier attempts to balance the budget, such as Gramm-Rudman-Hollings, was the lack of a workable error corrections mechanism.

Achieving a balanced budget by some date certain requires that these errors be corrected enroute, and not be bunched in the final year. The final piece of the implementation machinery is an enforcement mechanism that would provide Congress with the incentive to make the tough decisions. Spending cuts are never easy. But, in the long run, success of the program requires that Congress not shrink from these tough decisions, or retreat behind the cover of increased taxes.

While recognizing that across-the-board proportional spending cuts are certainly not the preferred alternative, the Chamber has supported such sequestrations as a method of last resort. When Congress shirks its responsibility to prioritize programs and make necessary cuts, there is little alternative.

Now, let me turn briefly to the specific proposals under consideration today. And, while these specific proposals all have a common goal, they choose to emphasize different aspects of the solution.

However, they should not be viewed as substitutes or mutually exclusive parts, but rather as complements or pieces of a common solution.

The Chamber endorsed the concept of a spending reduction commission when you proposed it in the last Congress. And, while we believe that decisions on government spending reside first and foremost with the Congress, the establishment of a bipartisan commission can help a deadlocked Congress reach a reasonable and workable solution. Modeled after the successful Base Closure Commission, a spending reduction commission could provide the objectivity and discipline necessary for Congress to rise above special interests, and to advance the broader national interest in restraining spending.

A spending reduction commission is also flexible enough to operate as a stand-alone mechanism should we not get a balanced budget

amendment or as an integral piece of a broader implementation package. In this latter role, for example, the commission might provide an interim step between a Congress that has failed to hit its annual target and the adoption of an across-the-board spending cut forced by sequestration.

And, I'm glad to see that Senator Gramm earlier today incorporated that in his proposal.

The Balanced Budget Implementation Act, S.149, is a much more detailed piece of legislation. And, it embodies many concepts endorsed by the Chamber. For example, zero-based budgeting.

The use of a baseline budget that incorporates projected increases in program costs and inflation as a base case, and reports reductions from this base case as spending cuts is grossly misleading. It's unethical, and it should be stopped.

Senate S.149 also incorporates a sequestration mechanism. As I stated previously, the Chamber recognizes that this is necessary as really a last resort in order to create the proper incentives.

S.149 is also flexible enough to incorporate the other mechanisms discussed today. The concept of a spending reduction commission could be integrated, and should be integrated, and the interim deficit targets that are included in S.149 could also be modified to include spending limits structured similar to the way Senator Kyl has in his Amendment.

Now, let me turn to the final piece for discussion today, Senator Kyl's S.J. Res. 3, a balanced budget amendment with spending limitations. I think the Chamber believes that the method used to balance the budget, spending cuts or tax increases, is critically important to achieving the desired end.

Cutting government spending is not just a preferred method, it is virtually the only method that can achieve long-term success. Not only that, but our economic model simulations also suggest that balancing the budget with spending cuts rather than tax increases provides greater long-term economic benefits -- that is, GDP would be higher, interest rates and inflation lower using this type of an approach.

Now, in addition to the processes discussed today, there are other proposals that have come up in the past that can play an important part in achieving a balanced budget. Last year, the Chamber supported the A to Z spending-cut proposal, which would have established a limited period for members of the House to offer spending cuts and have them voted on.

The Chamber has supported and advocated the adoption of a line-item veto or enhanced rescission authority. And, the Chamber has supported

limiting emergency spending to specific emergencies rather than becoming "Christmas trees" for particular pet projects.

So, we shouldn't forget these alternatives as we move forward. Once again, we commend you for holding these hearings and stand ready to help you to see this all the way through to the end.

Thank you.

[The prepared statement of Mr. Regalia appears in the Submissions for the Record.]

Senator Mack. Well, thank you also for your testimony this morning. And, let me just kind of toss out a general question to all of you.

It sounds like most of you feel that there is a way to really kind of blend the three approaches that have been suggested into some process. Is that a fair statement?

Do all of you believe that -- let's take the 19 percent. I would be interested in whether you are all comfortable with an implementing language that would include a targeted 19 percent of GDP.

The second, in essence, is the Spending Reduction Commission. And, the third would be the sequestration that would take place.

Obviously, there are many other things in S.149 beyond what I have just said. But, are all of you comfortable with that general approach?

Mr. Cobb. Mr. Chairman, my personal political philosophy is perfectly comfortable with it. I would only ask why 19 percent and why not 15 percent?

I think that the philosophy of limited government or devolution to the states and to the communities can go farther than 19 percent. Nineteen percent is historical, but we can do better than that.

I think that we need to remember the distinction, however, between establishing a rule, a frame of reference, a constitutional rule, and then below that all of the specific implementation details. It's possible that in 50 years the American electorate will be more homogenous, more collectivist-minded, more "Swedish" in their philosophy.

The constitutional rule would still be valid. But, at that point, you might actually have a genuine political majority in favor of having more of our goods and services purchased collectively and distributed collectively. That's what I call the Swedish model.

I think the importance of getting the rule in the Constitution is the primary thing we should focus on.

If you try to add in everything else that a political libertarian, such as myself, would want to see, it's possible that you wouldn't get any of it. So, we just need to keep that in mind.

Senator Mack. But, what we are talking about here is basically the establishment of the constitutional amendment, that there be a balance.

Mr. Cobb. Yes.

Senator Mack. Then, we put into place what I said earlier this morning, a bias to reach that balance.

Mr. Cobb. Those can only be done legislatively. And, I think that's how they should be done.

Senator Mack. Okay. Great. Any other comments?

Mr. Schatz. I think there is pretty much unanimous agreement that is something that should be worked on. I think it has to be logical and it has to make sense.

Certainly, you can't have something that is mutually exclusive. But, it doesn't sound like that's occurring at this point.

But, again, from our perspective, the most critical part of it really is the Spending Reduction Commission, because that will make the decisions. And, that will, I think, establish where you go.

And, I think one of the better points made is that if the sequestration is too big, it doesn't happen. And, I think that's something we really need to be careful about.

Under Gramm-Rudman, I believe it happened only once. And, it was fairly small.

Senator Mack. That's right. In fact, I think it happened as a result of its passage.

I think it happened immediately after that and it was about \$11 billion if I recall.

Mr. Schatz. That's right. It was \$13 billion. So --

Senator Mack. It worked. It was small and it did work. But, when the number got so great, you know, the will to allow this to take place wasn't there and the law was changed.

So, I think that's a point which raises -- Mr. Regalia, I think you referred to a corrections mechanism. Do we address that in the three different --

Mr. Regalia. Well, I think there are certainly pieces in these three bills that go to that particular point. There is a look-back sequester in Senator Gramm's approach that at the end of each year, about three-quarters of the way through the year, looks back and says, "How are we doing?"

And, if we are not doing well enough, then you make an effort in the fourth quarter to do a little bit better. This is a lesson we learned at the Federal Reserve Board in trying to cure inflation in the early 80s; that the process was going to be very, very slow.

It was an arduous process. It supposed more costs, I think, than balancing the budget ever will.

It required that we had to have a firm goal and interim targets each year. But, we didn't specify those targets ahead of time.

We specified those targets on an annual basis when the Chairman came before the House and Senate Banking Committees with his Humphrey-Hawkins testimony. And, I think that you have to have the same sort of process here, so that as we go through the year that miss is not incorporated or perennialized, but rather is corrected on as frequent a basis as possible. We don't want to get to the year 2001 with a big problem, because then the obvious solution is just to ignore it.

And, I think that's what happened in Gramm-Rudman. The problem got too big. We got a little bit too far behind and no one was willing to make the sacrifices to catch up.

So, I think an annual look-back mechanism that tries to create as fine a balance as possible between our interim targets and that ultimate goal will most likely result in the success of achieving that ultimate goal.

Senator Mack. So, establishing some targets but allowing for some adjustment would address this issue that has been raised here. But, if you don't have that mechanism in place, you could reach, let's say, the year 2000 or 1999 and have such a large number to have to address that the whole system breaks down under the pressure.

Mr. Regalia. Exactly.

Senator Mack. Okay. Yes, go ahead.

Mr. Lewis. Mr. Chairman, it seems to me that there is a nice serendipity that Senator Kyl pointed out. If you reduce the amount of spending by a certain percentage of GDP you wind up with a balanced budget in 2002. You also reach balance if you reduce it by a certain amount, 45 billion a year.

So, it seems to me that his proposal and yours are congruent or compatible in that respect.

Also, I think there are certain features of Senator Gramm's bill which are very obviously compatible. For example, the sunset provisions, the zero-based budgeting, the prohibition on unauthorized appropriations.

I mean, those features are consistent with any kind of fiscal responsibility measure. I would think, though, that the sequestration should be the last resort, because you do want to reduce spending on the basis of explicit spending priorities. And, you only want an across-the-board approach when Congress will not accept a commission's package of spending cuts.

The one concern I have -- and I haven't really thought this through -- is if Congress knows that sequestration, some kind of across-the-board measure, is out there as a last resort, will that encourage people to vote against the recommendations of a spending cut commission? I think that's a possible peril that needs to be thought through.

Senator Mack. That's a good point. And, maybe we will get back to that in a minute.

But, I want to let Senator Bennett go ahead.

Senator Bennett. Thank you, Mr. Chairman. Let me preface what I am saying by saying I am a believer.

And, I've been a co-sponsor of the Chairman's bill on the base closure commission approach. I want to make that clear at the outset, because from my questions there may be a sense that I'm not a believer.

I am probing for soft spots in an effort to make the product better, not in an effort to kill it. I agree -- and let me make another comment which I hope no one gets offended by.

I would feel a little more comfortable if on the panel we had somebody other than economists.

Mr. Lewis. I am a political scientist.

(Laughter.)

Senator Bennett. I would like a manager or two, somebody who had run an organization. I keep remembering an experience out of my management circumstance where a particular manager was under enormous pressure to increase his profits.

And, he did so with spending cuts, putting in the government vocabulary. His spending cuts were routine maintenance on his plant.

By keeping the cleaning crews and the repair crews and those things out of his plant, he showed temporary improvements. And, when the building figuratively collapsed and the corporation had to replace it at enormous cost, they realized that the spending cuts had, in fact, been tremendously foolish in the overall enterprise.

So, I agree clearly with the fear of a sequestration saying, "Well, we are going to cut everything 10 percent across-the-board." I can

understand that a macro-economist looks at those numbers and says, "that's what we need to do." And, a real live manager is standing there and screaming, "that's the dumbest thing you can do, because you are about to cut such and such a program that is essential for your survival." "Well, it doesn't matter. We are going to do this," which brings me to the heart of my concern about the Spending Cut Commission and how it will work.

We draw the parallel to the BRAC. This is how BRAC works. And, this is one of the reasons why BRAC works. And, I hope you can help me think this one through.

The Pentagon knows what works and what doesn't militarily. And, BRAC is the device to get the Pentagon decision-making through the Congress.

The real vetting of military bases is done by the military chiefs who say, "We don't really need" -- I will pick an example in my own state, "We really don't need Ft. Douglas anymore. We know the Utah delegation is in love with Ft. Douglas and they want to keep Ft. Douglas open, but we really don't need Ft. Douglas anymore."

So, Ft. Douglas goes on the list. It is a military decision made by military experts.

We are currently sweating it out with Hill Air Force Base in Utah. And, we feel if the military decision is made, Hill Air Force Base will be just fine. There is a little bit of inter-service rivalry with the Navy saying, "We got a bunch of bases closed in the last round. It's the Air Force's turn." And, therefore, the Air Force has to put Hill on the block because of inter-service rivalry.

Okay. That's the reality of the Pentagon. And, we, in the Congress, are beating them up and saying, "Don't do that. Make it on a pure military decision."

But, the point is, there is a preliminary vetting made by people who have a clear mission that will be affected by the cuts. And, they will protect a base that has an obvious military benefit.

Who is going to do the preliminary vetting of a congressional spending commission? Or, is it going to be -- as long as I've started down this road, I might as well get myself completely in trouble -- a group of economists who are going to sit around and say, "We need X amount of dollars. And, where is the easiest place to get them?"

And, we will not make the managerial decision that this program really is essential to the national survival. It's a specific possibility.

There is an awful lot of money in the Highway Trust Fund. Let's make the cut out of highway construction.

It doesn't have much of a constituency anymore. The interstate highway system is now finished.

And, if somebody comes in with proof that our bridges are collapsing, our infrastructure is in real trouble, what will happen to the economy if the interstate highway system begins to physically break up? And, maybe we should be spending more on the interstate highway system because of what it does to the economy and the absolutely vital role it plays.

I can see a commission saying, "that's where the money is. We are going to get X amount of dollars out of that."

Who does the initial vetting? Help me have a sense of security about this issue before I automatically vote for it.

Mr. Cobb. Senator, in my paper, which The Heritage Foundation published today, in which we looked very carefully at the way the legislation was drafted, I am confident about the process of having the Office of Management and Budget first develop criteria for cuts and then send those to Congress for congressional consideration before they become final criteria. And then on the basis of those objective criteria to produce a proposed list of cuts, just as the Defense Department today chooses bases, and then having the Congressional Budget Office do a second look at that same criteria and the same proposed list of cuts that OMB produces, you will actually develop a judgmental group of priorities. Congress then, of course, simultaneously can be watching what the Spending Reduction Commission is doing during the first six months of the fiscal calendar process.

When the Congress itself takes action, it automatically elevates programs to a higher priority for cutting than the Commission does. So, the Commission's job is reduced proportionately for that calendar year, although the Commission could keep on working harder and bring up a secondary thing.

By mid-summer, you've had the entire Federal budget thoroughly looked at. The judgmental processes -- are we keeping up with our repairs or are we, in fact, hiding things that ought to be addressed more early in the government management process -- all of this is right there before the public debate.

And, then, of course, the President has the chance on the first of September through the 10th of September to actually work directly with the Commission, send the report back for a revision. And, then if he sends it to the Congress -- if he sends it to the Congress -- and he explains

if he doesn't, to the public in the court of public opinion why he might not be sending it to Congress -- Congress itself then has the ability to look at the proposed list.

And, you also have the equivalent of a single House veto, because each House of Congress has to adopt the report without amendment. So, I think this ability to look judgmentally at whether the priority list is real or phoney is right there built in.

But, even more important, I think that if you look at something like the interstate highway system, which is the example you brought up -- and I think a very good one, because bridges, in particular, are things that need far more intensive work more frequently than the long stretches of concrete across Wyoming --

Senator Bennett. Utah, please.

(Laughter.)

Mr. Cobb. I was trying not to say anything that would bring any headline back home, sir.

(Laughter.)

Mr. Cobb. The ability of Congress to address capital asset management in more vigorous ways than simply raising taxes or raising spending, I think, would be an opportunity to be looked at by the Congress. For example, the interstate highway system is funded by the gasoline tax.

There is a prohibition in the statute against using the toll collection process on publicly funded stretches of the interstate highway system. I think that should be revisited.

I think Congress should look at some of the more innovative ways of electronically metering the use. I think the fact that heavy axle weights cause cracking in the pavement far more seriously than the lighter weighted passenger vehicles should be looked at for road financing.

And, there might be ways to actually collect user fees that don't run through the central government's budget. I think that the interstate highways should all be devolved to the states as soon as possible.

And, I think that the issue of the redistribution of funds, the fact that there is less traffic in the west but you do need the continuous ribbon of road across the states, could then be addressed at the Federal level as a block grant.

Senator Bennett. Well, that's a discussion we ought to have, because I think you've got some very provocative ideas there. I would just make the editorial comment that a user fee is a tax with another name on it.

Mr. Cobb. Not if it's a price for service. I mean, we might say that you pay a tax when you go to the grocery store and buy your family's groceries.

But, this is really a concept that we need to discuss further -- and it does have a fuzzy perimeter. But, when you are purchasing a service and paying for it because you are the prime beneficiary, I think it's appropriate to call it a user fee and look upon it as a price.

Of course, if it's a third-party transfer, then it's purely a tax and a user fee is just a label that someone has put on it to smog up the fact that they are raising taxes.

Senator Bennett. I won't prolong this. There are those who would use that argument to suggest that social security is a user fee. It has its own trust fund just like the Highway Trust Fund.

And, now we are back into the debate as to whether or not social security should be considered in the total calculations of the Balanced Budget Amendment. This Administration, as all previous ones, has used revenues from the Highway Trust Fund and the Airport/Airways Trust Fund statistically to lower the deficit.

Now, you can make the accounting argument, they haven't used the funds. They are still sitting there in the trust fund, just unexpended.

But, in terms of the way you calculate the deficit, they have held back on spending, either for new equipment for the air traffic controllers and that user fee -- and it's a pure user fee, there are no appropriated tax dollars that go into the Airport/Airways Trust Fund. Or, in the Highway Trust Fund, there are no appropriated tax dollars. They are all paid by users at the pump.

And, you are talking about new and innovative ways to get more money into that trust fund. But, then if you look at it in the overall, you say, "Well, the policy makers and the folks at OMB, by not spending the money that's in the trust fund that came from the user fee and then putting those amounts against the amounts they are spending on other things on an accounting basis, they are using those funds to pay other things."

And, I happen to think that's dishonest. I think the user fee should be -- to use the word we are kicking around here -- sequestered solely for the purpose for which it was used and should be spent.

I think every dime that's in the Highway Trust Fund should be spent on highways. I think every dime that's in the Airport/Airways Trust Fund should be spent on improving air traffic control.

And, if we don't need to spend it, then let's lower the user fee.

Mr. Cobb. I agree with you entirely, Senator. I have long been a critic of the so-called unified budget concept. I think it was put in the late 60s as part of a political act in order to help to cover up and to use the cross-subsidy in the trust funds.

I am very pleased that you said that we should cut the tax in the trust funds instead of making sure that we simply spend all the balance. The real bottom line there, of course, is there is no investment strategy for any of the trust funds. It's simply a technique for holding the money in non-marketable securities.

I think that the first thing we should address in fixing the problem with the social security embezzlement, as Senator Moynihan has called it, or the late Senator Heinz has called it, is to focus on the need for an investment strategy for social security. And, when you enter that debate, you get into a very interesting discussion, I think, whether it is really a way that young people save for their retirement as everybody wants to believe it is, or is it a trick, a trick, that was invented in the 1930s by people who saw it as a way to increase the power of government.

Senator Bennett. It is a giant Ponzi scheme that has worked so far. Let me just make one quick comment, Mr. Chairman.

I apologize, but I can't resist this. For those who say we have these huge surpluses in social security and that it's immoral to use them to pay for highways and so on and so forth, it becomes a matter of choosing your offsetting balance -- and I had my staff check into this. If you take Medicare and the expenditures of Medicare and just take Medicare and social security and put just those two together, the Social Security Fund is \$32 billion in deficit. So, it is not being spent for education and defense and all the other things that we heard on the floor.

It's being spent -- if you accept the notion that the money is being spent for something other than social security by virtue of the way the unified budget works, it's being spent for the oldsters who are being subsidized by the rest of the taxpayers \$32 billion worth.

Put Medicare and social security in the same pot. And, it's \$32 billion in deficit.

Thank you, Mr. Chairman.

Senator Mack. I just really have one, again, a kind of a broad or a general question. And, it has to do with the point that was raised a little bit earlier.

And, that is that you get into the sense of gaming the system. I mean, if we -- you know, each one of us, one way or another, is going to be working through this process.

You start out with a requirement to balance the budget by the year 2002. You have in place a budget process that will be affected by a spending reduction commission.

And, somebody will be thinking about, "Well, do I support the budget resolution or do I let a Spending Reduction Commission propose an alternative to it," and then thinking about, "Well, I've got a budget resolution, a Spending Reduction Commission proposal and a third alternative, which may be an across-the-board sequester."

How do you think that the system going to be gamed as a result of that, number one? And, number two, what effect does that have on people coming up with a plan which, in fact, includes taxation as part of the solution in the, let's say, initial budget proposal?

That's a broad question. I don't know whether anybody has thought through this question of gaming the system. But, the potential is there.

Mr. Schatz. Mr. Chairman, it's hard to avoid somebody proposing a budget resolution that includes a tax increase. The question is, "Who is going to vote for it, especially these days?"

Senator Mack. Well, let me -- this gets back to the other point. If this number is so large out here in the sequester, does that create a situation where the pressure is now to say, "Okay, I am going to accept that tax increase. It's not what I would do, but it's an alternative, frankly, that I have to support, given the size of the sequester that is going to take place at the end of the year."

Mr. Schatz. Well, I think, given the look back vision, I think that was an important point, that you will hopefully not get that build up that we've had in the past. That's, I think, one of the most critical parts of Senator Gramm's bill.

I think you will also find, again, that the pressure I still believe will be on people to vote for these spending cuts, because that's the way things are now. And, I think they will stay that way for quite some time.

In fact, as we look at the President's budget, which I characterized as punting backwards, because of the deficits and debt increasing over the years, people know what is going on out there. Again, given the opportunity to be fiscally responsible and vote for the list of spending cuts from the Commission as opposed to using the sequester, the political decision is, I think, more in favor of the Commission, particularly if you look at the new members coming in.

And, maybe that's something that you might want to talk to them about. They are the ones that are coming with all these new and bold ideas, and they are very welcome.

Where do they see themselves and where do they see this process going as we look towards the Balanced Budget Amendment?

Senator Mack. Anybody else?

Mr. Regalia. Senator, I don't think you can prevent the gaming instinct. It appears everywhere.

I mean, Keynes wrote in his general theory that the job of professional investment was inexorably boring to anyone completely devoid of the gaming instinct, while he who has that propensity must pay to it the appropriate toll.

Senator Mack. I have a feeling you've said that before.

Mr. Regalia. It's in the front of my dissertation.

(Laughter.)

Mr. Regalia. What it means basically is that there has to be a mechanism at some point that exacts a toll. And, yes, I think there will be attempts at some point to try and test the process to see if there is a weak point.

If we push everything off, if we fail to do what we are supposed to do, will we lack the resolve to face the sequester?

I think that there will be some testing of it. I think that it's important to have the mechanisms tested at each stage of the game -- we have to pass little tests before we have the big tests.

And, I believe that's why the look back sequester have as much value as they do because they will force the more modest test to be passed first. If we get to a situation, for instance, where we don't have good implementation language and we just wait until the year 2001 to decide how we are going to balance the budget in 2002, then we won't have the resolve to do it.

So, I think the gaming instinct is there. I don't think you can avoid it.

But, I think what you try to do is make the games as small as possible and as evenly matched as possible. And, then, people tend to act in their own best interests.

And, I think that will get us the desired result.

Senator Mack. Keep your thought for a second. Let me just add one more dimension to this and you can respond to it as well.

Would all of you, again, have the sequester in there as kind of the last defense?

Mr. Cobb. I would not, Senator. Once again, I'm concerned about the problem of having the best proposal end up becoming the enemy of a very good proposal.

With the Spending Reduction Commission, it's not going to be fun in this Congress to be an appropriator the way it has been for 50 or 200 years. I think that the appropriations process, the fun part of it, is the ability to actually be able to affect things that you know constituents or friends want you to be involved in.

And, the Spending Reduction Commission is going to come right back very quickly the next year and point to those appropriations as lower priority items. But, if you also have this trend toward term limits or just voluntary rotation in office, you are going to have Congress itself choosing only to make the big picture judgments and possibly deferring the process of making microscopic budgetary prioritizing off onto some institution like the Spending Reduction Commission.

I think that there is certainly a danger that a block of congressmen might decide to vote against the budget resolution every year and force Congress into a dilemma where it has to operate without a budget resolution. But, once again, that would become a big picture issue in the debate.

Also, I think the example of the Contract With America in the last election shows the way in which the debate itself could change to focus mostly on national issues instead of, as it used to be, the pork you brought home to your own district. This would be a very, very important and valuable change.

Senator Mack. Marlo.

Mr. Lewis. Yes. Well, one thing that I think argues for the feasibility of the Spending Reduction Commission is that, if I understand this correctly, the spending cuts could be made from any part of the budget except social security.

It will be a lot easier politically, to find \$45 billion out of \$1.5 trillion minus social security than it was back in 1990, say, to come up with the Gramm-Rudman deficit reduction target through a sequester, because at that time the sequester fell on a fairly narrow segment of the budget. It's politically very difficult to pull \$45 billion out of a narrower segment of the budget.

And, what happened in 1990, if my memory serves, was that we got into a Washington monument type situation, in which even though the sequester was not very large people could plausibly say, "If you do this, it will shut down agencies of the Federal Government." And, so if there is to be a sequester as a backstop (should the Spending Reduction Commission's recommendations fail to be enacted), the sequester should be stretched in its reach.

And, if my reading of Senator Gramm's legislation is accurate, he has broadened it somewhat. It will fall now on entitlement programs that are unearned.

But, it still seems to me that it's not as broad as the reach that your bill would give to the Spending Reduction Commission. And, so just as a political point, I think the broader the base from which we cut the more easily we can make the cuts.

Senator Mack. Did you have some comments on this issue of gaming?

Mr. Lewis. Yes. I think it will be possible for some members of Congress who would otherwise be willing to vote for the recommendations of a Spending Reduction Commission not to do so, because they would rather see a percentage of the programs they like removed than see some of those programs simply be axed entirely, which the Spending Reduction Commission might do.

In other words, if you have a sequester approach, you are not really forcing anyone to live with a new set of priorities. And, I think some members of Congress, some big spenders, would prefer that.

And, therefore, they would hold out hoping that the reductions would be made by the sequester rather than the Commission. Yet, what we really want to see is for reductions to be made on the basis of spending priorities.

And, so what I'm fearful of is that the sequestration, as a backstop, would jeopardize the success of the Commission. But, that's just my observation here on the spot.

I haven't thought this through. Maybe it would be a good idea to have sort of a second fail-safe mechanism behind your fail-safe mechanism. But, it seems to me does put your fail-safe mechanism in jeopardy.

Senator Mack. One could argue that if the Congress votes down the Spending Reduction Commission's recommendation, it seems to me it has made a clear statement to the public that they are not going to follow the dictates of the constitutional amendment.

Maybe there would have to be a penalty or a price or a consequence paid for having failed to meet that target, which would argue against not meeting it or argue for the position of saying you don't need a sequestration as kind of the last defense. But --

Mr. Cobb. Senator, but that would take the debate precisely where it ought to go. It ought to go to the public.

It ought to go to the next election. It ought to go to the issue, "Do you want to elect a Congress that will, in fact, raise taxes in order not to have

to meet those spending cuts that the Congress itself says, 'We don't want to make, because we reject the Spending Reduction Commission's report.' Or, do you want to replace those members that voted against that last Spending Reduction Commission's report with ones that will implement it?"

Also, I mentioned earlier, a moment ago, the appropriators. But, there are gigantic billions of dollars worth of savings that can be made with very tiny adjustments in entitlement formulas.

Ok, the Spending Reduction Commission would, of course, be looking at the entitlement formulas. Indeed, it might be able to do all of its work by being able to bypass the heart-tugging issue that an elected member finds so hard to face.

I was in your office about six months ago when your front office was just filled with about 12 people in wheelchairs. And, I felt sorry for you, because you were going to have to shake their hands and explain to them why you might vote for cutting a benefit that they wouldn't want you to vote for. But, if that -- I don't know what they were there for. I'm not trying to be against people in wheelchairs.

But, the point is that some very small reduction in some formula for some entitlement might save billions of dollars. And, a spending reduction commission would be able to look judgmentally at a long list of priorities.

I know the difficult situations that they have in the State of Oregon where they have tried actually to rank medical procedures in terms of which ones are most efficacious. I would not want to be an elected member who had to make that choice.

But, I would be pleased to vote in block for a long priority list at which at the bottom something might not be paid for.

Senator Mack. Unless you all have got some other thoughts, I think we will adjourn the meeting. Thank you very much for your participation.

(Whereupon, the hearing is adjourned at 12:08 p.m., Thursday, February 16, 1995.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF SENATOR CONNIE MACK, CHAIRMAN

We have been debating the Balanced Budget Amendment on the floor of the Senate for over two weeks. In spite of all the attempts we've seen to obscure and evade the issue, the real questions before us are simple and cannot be ignored:

Do we want to balance the budget or not? and,

Do we want a larger or smaller federal government? everything else is distraction.

The problem we face is enormous. President Clinton abdicated his fiscal responsibility to American taxpayers when he sent Congress a budget with deficits for the next five years totalling a trillion dollars. The 1994 election was about changing the way we do business, and can be summed up in one central message: we must get America's fiscal house in order.

Nothing we can do is more critical to the public, and nothing provokes voters' frustration with their government more than our failure to face our financial problems squarely and do what needs to be done.

It's no wonder opponents of the Balanced Budget Amendment will do anything to avoid this fundamental question. The old-style champions of big government are trying to bog this debate down, because it's easier to hide behind a cloak of political rhetoric than to admit an addiction to big government spending.

Let no one be fooled, for what matters now is whether we are really listening to the American people, and whether we are serious enough about the problem to impose on ourselves the same kind of financial discipline that every family in America must follow.

But even if we all agree on the immensity of the problem, and honor the wishes and demands of the American people by passing the Balanced Budget Amendment, we are still left with the daunting task of actually balancing the budget. How do we get there from here?

We need a responsible process which will guarantee that spending cuts - not tax increases - will be made to balance the budget, and provide outside restraints to protect the interests of American taxpayers.

A number of serious, reasonable recommendations already have been offered. Today, the committee will focus on three of the most promising.

A couple years ago, I came up with the concept of a Government Spending Reduction Commission, which would act as a fail-safe mechanism to ensure American taxpayers that the budget will be balanced through spending cuts -- not tax increases. The bill is known as S.202 here in the Senate. I am delighted that a Congressman Dan Miller has introduced companion legislation in the House, and that he is here today to discuss the concept with us.

Senator Phil Gramm will testify to the Committee about his bill, S.149, which would require a balanced budget by fiscal year 2002, while protecting Social Security, requiring zero-based budgeting, and providing for program sunseting every 10 years.

Finally, Senator John Kyl will discuss Senate Joint Resolution 3, his proposed amendment to the Constitution which would require that expenditures not exceed revenues for any given year, nor exceed 19 percent of the previous year's gross national product.

Since the Administration has walked away from its fiscal responsibilities, it is left to us in Congress to cut government spending. But if we can't muster the political will to get the job done, the American taxpayers deserve a fail-safe mechanism to guarantee that spending cuts be made.

This is our chance to fundamentally change the way government does business, and to show the Administration what "reinventing government" really means. I think this hearing is an important step toward keeping our promise to the American people by making that change.

PREPARED STATEMENT OF REPRESENTATIVE**JACK QUINN**

Good Morning, Mr. Chairman Mack and Vice-Chairman Saxton, it is a pleasure to be here.

As a Member of this Committee and a supporter of the Balanced Budget Amendment, I am especially interested in this morning's discussion.

I would like to welcome all of this morning's panelists. I would especially like to recognize Senator Jon Kyl, my colleague Congressman Dan Miller, and finally, my friend, Tom Schatz of Citizens Against Government Waste.

Your commitment to getting government spending under control and to reducing the deficit is highly commendable.

Mr. Chairman, as you well know, the Balanced Budget Amendment will force Congress to get a handle on both runaway deficits and runaway government spending. I look forward to hearing more about today's topic of Enforcement Provisions for the Balanced Budget Amendment.

PREPARED STATEMENT OF SENATOR JON KYL

Mr. Chairman, I want to thank you for scheduling this hearing today to consider enforcement mechanisms that are needed to achieve a balanced Federal budget by the year 2002. If the Senate adopts the Balanced Budget Amendment in the near future -- and I believe it will -- the Senate must be ready to follow up with a credible enforcement mechanism as promptly as possible to ensure that the balanced budget requirement can be met in a reasonable way without unduly burdening the Nation's economy.

Mr. Chairman, several enforcement mechanisms will be discussed at this hearing today, including your idea of establishing a Government Spending Reduction Commission -- an idea modeled after the successful base closure commission established several years ago.

The concept I am here to discuss complements your proposal as well as several others. The concept involves Federal spending limits.

Whereas the Balanced Budget Amendment defines the "goal" -- a balanced Federal budget -- spending limits represent the "strategy" that can get us there and keep us there. The Spending Reduction Commission and the ideas outlined in the other plans, including Senator Gramm's Balanced Budget Implementation Act. S. 149, represent the specific "tactics" to implement the strategy.

I believe the Balanced Budget/Spending Limitation Amendment, S.J.Res. 3, which I introduced on January 4, 1995, represents the optimal approach. It would write a spending limitation of 19% of Gross National Product (GNP) into the Constitution itself. Limit spending to the level of revenues that the economy has historically been willing to bear -- roughly 19% of GNP -- and there is no need to raise taxes. Congress wouldn't be allowed to spend any additional money that might be raised. Link spending to economic growth, as measured by GNP, and a positive incentive is created for Congress to support policies that promote economic growth and opportunity. The more the economy grows, the more Congress is allowed to spend, although always proportionate to the size of the economy.

A Balanced Budget Amendment with a spending limit will keep Congress focused on the real cause of budget deficits -- excessive government spending. A Balanced Budget Amendment without a spending limit would tempt Congress to raise taxes instead, and that strategy is more likely to slow economic growth than produce the necessary revenue to close the deficit.

The fact is, the economy has already imposed an effective limit on revenue as a share of GNP. Despite tax rate increases and tax cuts, recessions and expansions, and fiscal policies pursued by Presidents of both political parties, revenues as a share of GNP have fluctuated in a relatively narrow band between 18 to 20 percent for the last 40 years. Unless spending is limited to that level of revenues which the economy has historically been willing to bear the deficit will never be closed.

Given that revenues fluctuate in the narrow band of 18 to 20 of GNP regardless of what Congress does with tax rates, the key is not how much Congress taxes, but rather how it taxes. The key is whether tax policy fosters economic growth and opportunity, measured in terms of a larger GNP, or results in a smaller and weaker economy. In other words, 19% of a larger GNP represents more revenue to the government than 19% of a smaller GNP.

A constitutional spending limit, as embodied in S.J.Res. 3, is the best approach. If, however, there is insufficient support to write a spending limit into the Balanced Budget Amendment itself, spending limits still represent the best strategy to get to a balanced budget in the context of implementing legislation.

With that in mind, I am preparing to introduce a legislative version of the Balanced Budget/Spending Limitation Amendment. The Balanced Budget/Spending Limitation Act sets spending limits, declining one-half percent of Gross Domestic Product (the preferred new method of measurement) per year, from 21.5% of GDP in FY96 until balance is achieved in the year 2002 at 19% of GDP or balance with revenues, whichever is less. Spending would be capped thereafter at 19% of GDP.

The spending limits in the Kyl bill offer a more rational approach to deficit reduction. Deficit targets are established based upon application of spending limits linked to economic growth.

Setting deficits targets arbitrarily, as Congress has done in the past, was a strategy designed to fail. The arbitrary deficit targets bore little relation to the state of the economy, and that relationship is important because the state of the economy can influence expenditures such as on interest and unemployment compensation. Setting arbitrary deficits targets is like trying to stop a flow of water without turning off the tap. You have to limit the source of the flow before you can stop the flood.

Since we know that revenues have fallen within a very narrow range -- 18% to 20% of GDP -- and that they are unlikely to change significantly in the future, the only way to get to balance is to ratchet spending down, year by year to that level where we know revenues have been and are likely to stay. That is what my bill does.

Moreover, spending limits, defined as a percentage of GDP, are flexible. If Congress supports policies that help the economy grow and prosper, the deficit will be easier to reduce. For example, if the limit is 20% of GDP in FY99 and the economy is healthy and growing, Congress will have to cut spending less than if it supported policies that hindered economic growth. That is, 20% of a larger GDP allows more spending, and thus fewer spending cuts, than the same limit of 20% of a smaller GDP. Pro-growth economic policies mean less regulation, less taxation, and less intervention in the marketplace.

The spending limits in the bill are enforced by: a) mid-year and FY-start sequesters (exempting Social Security); and B) a three-fifths point of order for increases in the public debt limit beyond the level required to accommodate the spending limits. Since there could be no increase in debt held by the public without a three-fifths vote, any excess in a given fiscal year which is not eliminated through mid-year sequestration would carry over to the next fiscal year and be subject to a FY-start sequester. That is, the next year's spending levels would immediately be reduced by the amount of excess from the prior fiscal year.

The fiscal year start sequester represents the "hammer" to ensure honest accounting. Failure to adhere to the limits would be caught at the end of the year, permanently reducing the spending authority in the following fiscal year.

The Kyl bill protects Social Security by making the savings from any changes in Old Age and Survivors and Disability Insurance (OASDI) benefits or revenues non-allocable to the maximum allowable deficits derived from application of the spending limits through FY2000. The bill further provides for permanent removal of Social Security from the calculation of total receipts and outlays for purposes of meeting the balanced budget requirement. Beginning in FY2003, OMB would report the non-Social Security deficit and that amount becomes the baseline for further deficit reduction efforts. That non-Social Security deficit would be eliminated in 1/5 increments over the next 5 years until the non-Social Security budget is in balance in FY2008. Sequestration (exempting Social Security) would remain in place as an enforcement mechanism during that 5 year period and beyond. Total spending, including Social Security, would still be subject to the 19% limitation.

The Kyl bill is complementary to other approaches that have been discussed. For example, it could be combined with the Government Spending Reduction Commission embodied in S. 202. Congress could first be slowed an opportunity to achieve the spending limitation targets. If it failed, the Commission's recommendations would be put to a vote.

And, if the Commissions recommendations were defeated, the sequestration procedures of the Kyl bill would provide the ultimate enforcement. Congress would have two chances to achieve the needed deficit reduction before automatic sequestration is imposed.

Similarly, spending limits could be combined with the procedures outlined in S. 149, the Balanced Budget Implementation Act. Spending limits represent the strategy. Decennial sun setting, baseline budgeting and entitlement caps implement the strategy.

Mr. Chairman, thank you again for allowing me this opportunity to testify. I look forward to working with you to craft an effective and credible enforcement bill.

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**THE SPENDING REDUCTION ENFORCEMENT ACT OF 1995:
BREAKING THE VICIOUS CYCLE OF TAX AND SPEND**

Testimony Before the Joint Economic Committee

by

Representative Dan Miller

February 16, 1995

Let me begin by thanking Chairman Mack and the other members of the Committee for inviting me to appear before the Joint Economic Committee this morning. It is an honor to sit on such a distinguished panel of legislators.

As the Senate vote on the balanced budget amendment approaches, the scope of the task posed by the constitutional mandate has become crystal clear. Regardless of the outcome of that vote, the federal budget must be balanced and every program must be reevaluated. Although I do not wish to downplay the enormity of the task, the simple truth is that the federal government, beyond its basic defense functions, does very little very well. Many programs must be eliminated, others must be returned to the states. Old-style government bureaucracies must be replaced with dynamic markets and open competition.

As a member of both the House Appropriations and Budget Committees, I am acutely aware of the task we face. Finding and implementing adequate budget enforcement

mechanisms will be fundamental to our efforts to re-limit and reduce the size and scope of the federal government.

With this goal in mind, the Budget Committee, the Appropriations Committee, and the committees of program jurisdiction have already begun a comprehensive review of federal spending programs.

As tough as the individual choices on spending priorities may be, the real challenge will be the process itself. As political columnist George Will recently stated, balancing the budget is intellectually easy, but politically difficult. Specifically, we must overcome the institutional barriers to change. Most members of Congress agree that federal spending should be limited and the budget should be balanced. Many of us could probably come up with a list of program terminations and reductions necessary to do the job. Unfortunately, all this begs the real question of budget process enforcement: namely, getting a majority of members to agree on the same list.

Creating a process to ensure eventual agreement on budget priorities within the constraints of a balanced budget is the purpose of this hearing today. As a means of supporting and ensuring this process of meaningful government downsizing through the normal budget process, Senator Mack and I have reintroduced legislation creating a Spending Reduction Commission with real enforcement teeth. Should the normal budget process break down, this legislation will ensure that this Congress balances the budget by cutting spending first.

THE VICIOUS CYCLE OF TAX AND SPEND

As the election last November 8th demonstrated, the American people are fed up

with "business as usual." They are highly skeptical of the federal government's ability to perform even basic functions, and downright pessimistic of the ability of their elected officials to get the government's fiscal affairs in some semblance of order. The majority of the American people agreed with Ronald Reagan in 1980 when he campaigned against big government. As many incumbent politicians learned last November, they still do. They still want the President to cut spending first. They still want Congress to cut spending first. Poll after poll demonstrates that the vast majority of American citizens continue to prefer less spending and lower taxes to more. Yet the federal budget process during the last two presidencies has resulted in the opposite result -- higher spending and higher taxes.

Pent-up voter outrage and frustration crystallized in the wake of President Bush's infamous 1990 budget agreement, a deal that raised taxes by \$158 billion and promised \$496 billion in deficit reduction over 5 years. The taxes went into effect right on schedule, but the promised "deficit reduction" never materialized. Instead of falling by \$496 billion, the cumulative deficit increased by over \$1 trillion.

Just 3 years later, President Clinton similarly attempted to reduce the deficit by \$496 billion over 5 years. But instead of moving closer to the public's preference for spending cuts over taxes, the new administration has focused predominantly on higher revenues to achieve its goal of budget balance. Many of the current Administration's tax increases were imposed retroactively to January 1993, nearly a month before President Clinton was sworn into office.

Voters rejected tax and spend politics in 1992, and again in 1994. As a Republican member of the new majority in Congress, I know that they will do so again if we fail to change the way Congress does business.

THE DYNAMICS OF PUBLIC CHOICE

Unfortunately, reducing the size of the federal government runs against the grain of the legislative process. Spending has always been what Congress does best. As Public Choice theory has so aptly demonstrated, individual Members seeking reelection face every incentive to earmark a larger share of the federal pie for projects that directly benefit some specific constituency back home. The costs of such programs far exceed any broad national benefit, but their funding is jealously protected by the direct beneficiaries of each project.

As a member of both Appropriations and Budget, I experience the dynamics of this process every day. Very few people come to my office to ask me to cut programs. It is a simple calculus of dispersed costs and concentrated benefits. As James L. Payne points out in his book *The Culture of Spending: Why Congress Lives Beyond Our Means*, the process itself is biased in favor of increasing, not cutting, spending. In one recent appropriations cycle, Payne discovered that 1,014 of the 1060 witnesses appearing before congressional committees testified in favor of increased funding and new programs. This ratio has shifted dramatically in this new Congress, but the institutional incentives remain the same.

As the recent debate over federal funding for the Corporation for Public Broadcasting has demonstrated, every line-item in the federal budget has a special interest constituency ready to lobby Congress to protect their funding and their programs. The outcry from these organized interests will only get louder as we look at tougher cuts. Just as standard public choice economic theory suggests, such special-interest spending has been the life blood of "business as usual."

Given a choice, the vast majority of Americans would choose smaller government

(including reasoned cuts in the programs from which they directly benefit) over higher taxes. I, for instance, represent a congressional district with the largest number of senior citizens over the age of 65. At town hall meetings in my District, I can and do talk about means-testing Medicare Part B, and slowing the growth of Medicare spending through market-based systemic reform. Seniors don't like the Medicare bureaucracy and are genuinely open to change, provided that other spending programs are kept on the table. Indeed, unlike the lobbyists who work the halls of Congress, the people who come to my town hall meetings back home clearly want the government to do less, not more. Unfortunately, far too often no clear-cut choice is ever presented to voters.

REAL INSTITUTIONAL CHANGE

What is needed is a restructuring of the institutional incentives faced by members of Congress, real change that would break this vicious cycle of tax and spend.

Three of the most promising reforms pending are fundamental: a line item veto, congressional term limits and a tough tax or spending limitation/balanced budget amendment to the Constitution. Already, the positive effects of the line-item veto legislation passed in the House as part of our Contract with America can be seen. Instead of the typical "log-rolling" behavior within the appropriations process, we are seeing both sides of the political aisle develop program cut "hit lists." Pork barrel politics is grinding to a halt even before enactment of the presidential line-item veto.

Term limits would simply discourage the vote-maximizing behavior of career politicians. In blunt layman's terms, if you know that your career as a Representative or Senator is temporary, you will be more inclined to act in the long-run interests of all citizens and less inclined to listen to the special interests that could help you win the next

election.

A properly structured balanced budget amendment would place limits on both taxes and deficit spending, forcing Congress to balance infinite demands within limited means. Senator Jon Kyl has introduced one such reform, S.J. Res. 3, a constitutional mandate placing supermajority limits on federal spending at 19 percent of GDP.

With or without such fundamental constitutional reforms, Congress must enact budget process reform legislation forcing a reevaluation of spending priorities. A properly-constructed enforcement mechanism would address perverse incentives within the political process, protecting the general taxpayer interest from the continued onslaught of special interests. I remain convinced that every individual legislator wants to do the right thing. We must give the Congress the institutional backbone to cut spending first.

THE SPENDING REDUCTION ENFORCEMENT ACT OF 1995

Both S. 202 introduced by Senator Mack and H.R. 822 introduced by myself and Rep. David Minge (D-MN) create an independent, bipartisan Spending Reduction Commission. This legislation borrows the best concepts from the Base Closure and Realignment Commission, the President's Private Sector Survey on Cost Control (the Grace Commission), and the Gramm-Rudman-Hollings Emergency Deficit Control Act. It will finally break the vicious cycle of tax and spend by offering voters a real alternative to bigger government and a clear choice between higher taxes and fewer programs.

The Base Closure Commission created a rational process for eliminating military installations that no longer served any strategic national purpose. Because each base had at least 3 strident defenders in Congress (1 Representative and 2 Senators), no major bases

were closed between 1977 and 1991. Legislation developed by Representative Dick Armey and enacted in 1988 established an independent commission to develop recommendations free from the push and pull of parochial politics, ending years of congressional gridlock and ultimately closing obsolete bases. The Spending Reduction Commission apes the genius of this approach, bypassing special interests to reach a common interest in smaller government.

The Grace Commission, established by a Reagan Administration Executive Order, developed 2,478 separate recommendations intended to eliminate government waste and to enhance the efficiency of government operations, with potential budget savings of \$424 billion over 3 years. Many of the Commission's recommendations have since been adopted. According to Citizens Against Government Waste, the implementation of the remaining Grace proposals could save taxpayers almost \$100 billion. Like the Grace Commission, the Spending Reduction Commission would apply a business-like approach to government downsizing.

The original Gramm-Rudman law set fixed deficit targets, enforced by across-the-board cuts in spending if the mark was not met by Congress. The law had to be revised in 1987 to allow for higher targets, but it actually was working until it was abandoned in 1990. The deficit as a share of GNP fell from 5.4 percent in 1985 to 2.9 percent in 1989. Gramm-Rudman ultimately failed because of the many exemptions to sequester granted in the original struggle to enact the enforcement legislation. As the press characterized it at the time, Gramm-Rudman took a "meat ax" approach to spending restraint: some programs (poultry inspection and air traffic control, for example) were cut too deep, while large portions of the budget (like Medicare) continued to grow completely exempt from sequester.

It was this dynamic that gave rise to the disastrous budget accord of 1990.¹

The Spending Reduction Enforcement Act takes the experiences of these past budget enforcement efforts and melds the best of each into one process. I have attached a copy of the legislation to my testimony. In brief, Congress would be required to meet an annual target of at least \$45 billion in spending reductions. This target is based on the latest projections by the Congressional Budget Office of what it would take in fixed annual reductions in federal spending to achieve a balanced budget by 2002.

If the normal budget resolution-reconciliation-appropriations process breaks down and Congress fails to meet the \$45 billion mark, an independent, a bipartisan commission would develop proposals to make up the difference. The commission would review recommendations made by the Office of Management and Budget, and submit a package to the President. The cuts would target waste, pork, and unnecessary, outdated, and inefficient programs as well as those that benefit some narrow interest at the expense of the public interest. Subject to the President's approval, the final package would go to Congress for a final vote under an expedited rule that prohibits amendments and limits debate.

H. R. 822 contains an additional enforcement provision borrowed from Senator Gramm's original 1985 enforcement legislation. If the Congress and the President still refuse to support the reduction of deficit spending, an automatic mechanism known as sequestration will cut programs across-the-board to achieve a total of \$45 billion. The spending caps originally contained in the Budget Enforcement Act of 1990 would be reduced accordingly

¹ Former OMB Director Richard Darman was ultimately successful in gutting the Gramm-Rudman enforcement mechanisms by creating a political crisis; first, by inflating the size of the deficit through the accounting of the Savings and Loan bailout, and second, by convincing the Bush Administration that the size of the sequester necessary (well over \$100 billion) was not politically viable.

to prevent baseline manipulations in the out-years. In other words, the spending cuts would be real and permanent.

By creating an independent commission similar to the Grace Commission, the Spending Reduction Commission's recommended program cuts would be based more on merit and less on political pull of committee chairmen. By providing for one up or down vote on the package of recommended cuts without amendment, the same expedited process established by the 1990 base closure law, this legislation would provide voters with a clearer trade-off between spending cuts and tax increases. Finally, by establishing annual spending reduction targets of \$45 billion similar to Gramm-Rudman's fixed deficit targets and enforced by sequester, this new process would guarantee real deficit reduction through lower federal spending.

The Spending Reduction Enforcement Act would finally eliminate the unnecessary spending that is driving the budget deficit. It replaces the political exchange process with the more rational, business-like approach of making unlimited ends fit within fixed means -- no amendments, no pork-barrel politics, no back-room deals.

Some critics have denounced the idea as a political gimmick, another attempt to avoid making the tough decisions necessary to balance the federal budget. In fact, the opposite is true. As I have already stated, the Commission process only goes into effect if the Congress fails to cut the necessary \$45 billion in spending through the normal appropriations process. Even then, Congress must still vote to approve or disapprove the final package.

Let me close by answering the first question I expect to get. Since the new

Republican Majority ran on a promise to balance the federal budget, why don't you just do it? Yes, we ran on reform and we will do it. In the House, both Budget Committee Chairman John Kasich and Appropriations Committee Chairman Bob Livingston are committed to bringing the budget into balance through spending restraint. Indeed, I fully expect the House of Representatives to deliver on the specific spending cuts necessary to put us on the glide-path to balance by 2002 as mandated by the Balanced Budget Amendment. I believe that the Senate leadership is equally committed to downsizing the federal budget, but as you well know, it takes far more than a simple majority to succeed in the Senate.

Virtually everyone on this Committee agrees on the need for change. But our idealism must be tempered by a realistic understanding of what makes government tick. As Public Choice economic theory teaches us, legislators cannot somehow leave their private interests at the door when they enter public service. Simply hoping for rational economic policies from a bureaucratic system embodies what Nobel laureate economist James Buchanan has called the "romantic" view of politics. The Spending Reduction Commission is a tough reform that rejects this romance with big government, and provides voters with a better alternative to tax and spend politics.

Thank you again for your time, and I welcome any comments or questions.

STATEMENT OF
CONGRESSMAN DAVID MINGE

BEFORE THE JOINT ECONOMIC COMMITTEE
DURING A HEARING ON ENFORCEMENT MECHANISMS
FOR THE BALANCED BUDGET AMENDMENT TO THE CONSTITUTION

FEBRUARY 16, 1995

INTRODUCTION

Mr. Chairman and distinguished members of the Committee, thank you for the opportunity to participate in this important discussion on ways to enforce the balanced budget amendment to the Constitution.

As you know, Congress has been unable to balance the federal budget for over twenty-five years. Regrettably, the resulting annual budget deficits have amassed a staggering national debt of over \$4.7 TRILLION. Unless we take action now to reduce and eliminate our deficit, future generations will find themselves so entrenched in debt that the American dream will be only a memory.

Many of us are working hard to pass the balanced budget amendment because we are sincerely concerned about solving our nation's fiscal problems. However, the amendment by itself will neither eliminate the deficit nor guarantee a balanced federal budget. The passage of the balanced budget amendment is a sign that the time has come to change our ways and get our fiscal house in order. We must begin to pave the way to a balanced budget by devising and implementing strong enforcement mechanisms. I am hopeful that a balanced budget amendment combined with strong enforcement mechanisms will help Congress make the tough decisions needed to eliminate the deficit.

CREATION OF A SPENDING REDUCTION COMMISSION

I am here today to support the Spending Reduction Enforcement Act of 1995 (H.R. 822), which Congressman Dan Miller and I recently introduced in the House. I understand that you, Mr. Chairman, have introduced a companion bill in the Senate. This bill provides a fair, nonpolitical process to achieve \$45 billion in spending cuts each fiscal year until a balanced budget is reached. To do this, the bill first requires Congress to cut outlays by \$45 billion annually. If Congress fails to do this through the normal budget process, a bipartisan Spending Reduction Commission will be established with the duty of

recommending a specific spending reduction proposal to make up the difference. A package of the Commission's final recommendations will be sent to Congress where both chambers will be required to vote on the entire package without amendment.

The bipartisan Spending Reduction Commission will be composed of seven individuals nominated by Congress, appointed by the President and confirmed by the Senate. No current member of Congress, employee of the Executive branch, or current or former registered lobbyist will be allowed to serve on the Commission.

The Spending Reduction Commission will be subject to guidelines when crafting their recommendations. The Commission will work to:

- 1) Eliminate redundant and outdated programs, as well as those programs with missions that can be effectively accomplished by the private sector.
- 2) Reduce those programs with excessive administrative costs or consolidate them with other programs.
- 3) Eliminate programs that provide subsidies that benefit narrow special interest groups at the expense of the national interest.
- 4) Reduce or eliminate those programs that have low priority in meeting a national interest criterion.


The Spending Reduction Enforcement Act of 1995 will create a commission with real budget-cutting teeth. If Congress fails to cut spending through the normal budget process, the bill will require the Spending Reduction Commission to ferret out wasteful or extravagant government programs and make specific spending cut recommendations. More importantly, the bill requires Congress to vote on the recommendations of the Commission. In addition, if Congress or the President does not approve the Commission's recommendations, an automatic sequestration mechanism will cut spending across the board to reach the \$45 billion goal.

This Commission will not provide political cover for those who talk about deficit reduction and do nothing. The Commission will be a strong, effective, and fair tool that Congress can use to eliminate the deficit and balance the budget.

WE NEED STRONG DEFICIT REDUCTION MEASURES

We are here discussing enforcement mechanisms for the balanced budget amendment because Congress has been unable to control the deficit under the current system. Political gridlock and the unwillingness of members to vote for specific spending cuts have created a frustrating atmosphere where marginal government

programs enjoy eternal life and we, the members of Congress, have excuses for lack of action. We need to invent effective means to deal with the deficit before it is too late. The establishment of an independent, nonpolitical commission to provide Congress with specific recommendations on wasteful government spending will be a useful tool for balancing the federal budget. Mr. Chairman, members of the Committee, I strongly urge your support for this Spending Reduction Commission and any other measures that will balance our federal budget quickly and fairly. Thank you again for allowing me to appear before your committee.



PREPARED STATEMENT OF GROVER G. NORQUIST

I appreciate the opportunity to speak to the Joint Economic Committee of the United States on behalf of the 60,000 members of Americans for Tax Reform and the 800 state and local taxpayers groups we work with across the nation.

Americans for Tax Reform strongly supports a balanced budget amendment with a requirement for super-majority vote to increase taxes. ATR supports a balanced budget amendment as a constitutional tool to help bring down Federal spending.

ATR wholeheartedly endorses S.202, legislation that will create a Government Spending Reduction Commission to propose spending cuts to Congress for a yes or no vote. It is very important that this commission be designed to prevent any tax increase from being proposed so that demagogues cannot attack the commission as some have done the balanced budget amendment.

This spending reduction commission is based on the very successful model of the base closing commission first put forward by Representative Dick Armey. This model allowed members of Congress to vote in support of closing bases without creating a backlash from districts with unnecessary bases.

It worked well.

Second, Americans for Tax Reform will also support S.149, legislation that would require a balanced budget by the year 2002 by enacting zero-based budgeting, decennial sunseting of spending programs, and spending caps on the growth of entitlements with a sequestration power. It is important to remember that the Gramm-Rudman law was repealed, not because it didn't work, but because it did work to reign in Federal spending.

Sunseting of spending programs would be a very important tool to prune back spending that continues solely through congressional inertia.

S.J. Res. 3 has also gained support from ATR and other taxpayer groups because it brings spending down to 19 percent of GNP over time. This would ratchet down spending just as profligacy has ratcheted up spending over the last 30 years.

ATR welcomes all efforts to reduce government spending and government control over the lives of Americans. The goal is to reduce total spending and all spending in relation to the total economy. Raising taxes simply feeds the leviathan, fueling yet more spending and ever higher deficits.

Tax increases are never the solution. They are, and will always be, the source of problems, creating and fueling a vicious cycle of government growth, more tax hikes, and spiraling spending.

In 1994, Tax Freedom Day, the day until which all Americans work to pay their taxes...and only after that day do they work for their families, keeping their money...was March 3.

The Cost of Government Day, COGD, the day when Americans finish working to pay for all taxes and regulatory burdens was July 10...more than half-way through the year.

The government has grown too large and spends too much money. This must stop. The November 8 election was a warning shot across the bow of the Federal government by the people the government is supposed to serve, not be served by.

The 1960s, 1970s and 1980s were all decades of greed by the Federal government and the special spending interests who demand ever more tribute from the American people. Enough is enough.

I appreciate the opportunity to speak to this body.

I was pleased that under new management this committee solicited the views of a taxpayer group.

Americans for Tax Reform does not now and has never received any taxpayer funds directly or indirectly from the government. Nor have we received any funds from foundations that have received taxpayer dollars.

Joint Economic Committee

February 16, 1995

**Testimony
of****Joe Cobb****John M. Olin Senior Fellow in Political Economy
The Heritage Foundation
Washington, DC 20002**

Mr. Chairman and Members of the Committee, thank you for inviting me to appear here today to offer my views on proposals to reduce the Federal budget deficit and achieve a balanced budget by the turn of the century. I have to say, initially, that I appear here today in my own capacity and not as an employee or spokesman for The Heritage Foundation.

Of the three proposals you are looking at today, I want to focus my remarks first on the idea of establishing a Spending Reduction Commission that would develop a priority list of cuts in the Federal budget each year amounting to \$45 billion. By progressively **reducing the rate of increase** in the budget baseline by that amount, the budget would arrive at a balance in approximately five to seven years, between the

government's growing revenues and its more slowly growing expenditures.

The Heritage Foundation has just published a paper that I wrote analyzing this idea, a copy of which is also available here today. In preparing this analysis, I examined the mechanism proposed in Senator Mack's bills, S. 202 and S. 206, and the bills H.R. 822 and H.R. 823 introduced by Representatives Dan Miller (R-FL) and David Minge (D-MN) in the House of Representatives.

My general conclusion is that the proposal for a Spending Reduction Commission is a very workable solution to cutting the Federal budget systematically over the next five years. Indeed, I think it is possible that *there may be no other way* to get to a balanced Federal budget from the current starting point of today's \$200 billion deficit. Everyone who has looked at the Federal budget has concluded that at least five years of concentrated trimming will be needed. No one seriously proposes that the budget be cut and brought into balance at a faster rate than over five years.

The False Debate: "Tell Us How You Will Do It"

The most common challenge we hear, in the media and from opponents of the balanced budget constitutional amendment, is the challenge to "tell us how you will do it" or "give us a full five year plan for spending cuts." I call this ***The False Debate*** for two reasons:

FIRST, because any five-year plan for spending will be necessarily inaccurate. If you look at the Federal budgets that the President has published or that the Congress has enacted over the past 15 years, and examine the second through fifth out-year forecasts, the most obvious thing you see is that the out years are not accurate. Economic and budget forecasts are less accurate than the five-year weather forecasts. Even the forecast of revenues and spending one year ahead tends to be inaccurate — which is why Congress always has to act on a supplemental appropriations bill every spring.

The Congress should look at its spending priorities each year for the coming year. Any pretense to look five years into the future is not only impossible, but when you add together all the billions of dollars from Year Five, Year Four, etc., there is an illusion of large cuts. But it

is only an illusion. You don't know the inflation rate, the economic growth rate, the interest rates, or even important factors such as the price of oil for even one year in advance. In President Clinton's FY1996 budget, for example, he claims to have proposed \$80.6 billion in spending cuts, over five years. But when you look more closely, he has actually only proposed \$4.5 billion for Fiscal Year 1996. All the other \$76 billion is pure wishful thinking.

Some budget experts advocate five year and ten year budgeting because they believe the government should plan ahead, the way private businesses do. But there is a serious confusion in the Federal budget dialog between the way a private business uses multiple year budgets and the way the Federal government uses them. A private business uses a budget for planning its business strategy, and typically the most interesting thing about the budget after a few months or years is all the ways in which the planning went wrong: the "budget variances." This helps business management to re-examine their market assumptions and strategies. In the Federal government, however, there is none of this "management by variance." The fact that there is continual underestimating of the costs of programs is the reason why we are here today. The Federal budgeting process does not work. And the requirement that five or ten years of bogus economic forecasting be

published as part of the budget documents just makes the process more confusing.

The Problem of Circular Majority

SECOND, there is a well known problem in Public Choice Theory, sometimes called the problem of “circular majority.” The problem in collective or group decision-making is that if you have, let us say, three choices: call them Choice A, Choice B, and Choice C. Let’s assume the details of these choices are complex, consisting of a bundle of things, some of which are desired by some voters and some of which are desired by other voters.

You can put together a voting majority in favor of one choice, say Choice A, and that majority prefers it over Choice B. Then you can put together a different voting majority that prefers Choice B over Choice C. But by the shifting of votes, and some voters deciding “yes” on all three choices, you can also put together a voting majority that prefers Choice C over Choice A.

A > B

B > C

C > A

As you can see, a collective group, such as a Congress, or a democratic majority in any system of voting, can find itself unable to make a coherent choice between all the alternatives it must face.

I believe the opponents of a balanced budget constitutional amendment clearly understand this problem in Public Choice Theory. You can put together a long series of majorities *in favor of NOT cutting* programs, because each program, one after the other, is popular with a different collection of interest group majorities. Therefore, the challenge to “tell us how you will do it” is a trap in the False Debate.

There is a strong national majority today in favor of a balanced Federal budget. But at the same time there are circular majorities in favor of keeping programs and keeping the current spending baseline growing faster than revenues. The trap that says, “give us a full five year plan of spending cuts” is intended to replace the majority opinion today in favor of the balanced budget constitutional amendment with all

the circular majorities that can be constructed against it from all the combinations of possible spending cuts.

The Discovery Process: One Step at a Time

Congress must reject the False Debate. The impossibility of economic forecasting for a balanced Federal budget over five years is one strong reason to reject it. The correct procedure is to take the spending cut process one step at a time, and not to attempt to make a fictional five year plan. The analogy that comes to mind is an exploring party, cutting through a jungle with a compass but without a detailed map. You keep heading in the chosen compass direction, but as you come to physical barriers, you find ways to go around them whenever you cannot climb over them. Each year the Federal budget jungle will look different after the previous year's spending cuts, and given the economic events of the new year.

An even more important reason for creating a Spending Reduction Commission is to provide Congress with an alternative to the dilemma of circular majorities against spending cuts. The main purpose of the Spending Reduction Commission would be to put together a single, coherent list, ranking the lowest priorities in the Federal budget each

year. And then the President would be charged with putting its list before Congress for an up-or-down vote, in the national interest. The Spending Reduction Commission would be like a jury of average Americans, chosen to look at the facts and the evidence, and find the guilty, lowest priority things in the Federal budget. The Spending Reduction Commission would lay its findings before the Court of Public Opinion and Congress would have to act on it without political horse trading, log rolling, back scratching, or evasion of the issues.

The Need for a Single, Coherent Priority List

In my paper I have discussed the way in which the Defense Base Closure and Realignment Commission worked in 1988, 1991, 1993, and also this year, to identify the lowest priority military bases. The plain truth is that the problem of circular majority can be overcome, but you have to create some kind of fact-finding commission, or some kind of jury, that stands outside the political debate and gives you a report. Like the Defense Base Closure commission, however, the members cannot be sitting politicians. And its report ***needs to be implemented!*** The sad result of the recent Entitlements Commission, chaired by Senator Kerrey of Nebraska, should illustrate the problems with commissions that are simply advisory.

In American Constitutional history, we faced this problem almost immediately after the Revolutionary War when the Articles of Confederation proved unworkable. In *The Federalist Papers*, Madison and Hamilton described why we needed an Executive department, headed by the President, to represent the United States in foreign policy. They pointed at the way the European Powers looked at Congress as a disorganized body, unable to make foreign policy. Other governments held the United States government in contempt. They were describing the problem of circular majority in foreign policy.

In the budget debates for the past 15 years, Congress has repeatedly called upon the President to submit a balanced budget. The President of the United States, however, is just another politician in our domestic politics. The President's budget is "dead on arrival" in Congress. The Constitution makes the Congress the final authority over taxing and spending. And there is no way the Congress can solve its problem of circular majorities.

The Spending Reduction Commission can provide that point of focus that is missing. Composed of seven, very short term (one year) members, such a working group can provide the missing single priority

list for Congress if the President and Congress are not able to make one for themselves.

Not an Abdication of Power nor Evasion of Responsibility

As I have pointed out in my paper, which The Heritage Foundation has just published, the President and the Congress will have complete control over the composition of the Spending Reduction Commission, and they will have almost complete control over its final report. The President can refuse to certify and submit its report to the Congress in September of each year, and the Congress can veto the report. Indeed, Congress would have what we used to call a “single house veto.”

The President and Congress would even have a limited degree of control over the content of the Spending Reduction Commission’s report. The President can return a report initially and suggest revisions. The Congress can influence the report by acting first, during the months prior to August of each year. And Congress, by making cuts in the budget itself, could make the Spending Reduction Commission’s effect even smaller.

Once again, it is part of the False Debate to say that Congress should simply sit down, roll up its collective sleeves, and do the job for

which the Members were elected. That is precisely how the trap of circular majorities produces legislative gridlock and unbalanced budgets.

Going Further Toward the Goal

I have spent most of my time on the proposal by Senator Mack and Representatives Miller and Minge because I really see their proposal for a Spending Reduction Commission as the most feasible plan. This proposal speaks most directly to the problem that the theory of Public Choice has identified, that of circular majority, and the other problem I have pointed out, the illusion of five year planning.

I think the proposal of Senator Kyl, S. J. Res. 3, for a balanced budget/spending limitation amendment to the Constitution, imposing a limit on Federal spending to 19 percent of the Gross Domestic Product, is an excellent idea. It certainly is consistent with my personal preferences for keeping resources in the private sector, and encouraging Americans to organize their production and purchase of collective goods and services outside of the Federal government sector. But I do not see this proposal as essentially addressing the problem of circular majority, which I think is the central dilemma in the balanced budget debate.

The proposal by Senator Gramm, S. 149, is also an excellent proposal. I believe in setting annual targets for deficit reduction. The requirement for a joint resolution, signed by the President, would go far in the direction of forcing real decisions instead of legislative gridlock in the budget process. I support the proposal for zero based budget analysis of programs and agencies, and for sunseting programs after 10 years. Congress should not appropriate funds for programs that do not have an authorization from Congress. Finally, the limiting of the growth in entitlements is clearly at the heart of the problem today in the Federal budget.

All of these ideas would be giant steps in the direction of fiscal control, but none of them really get to the central problems that I have pointed to: the fallacy of long-term "planning" in the Federal budget, and the problem of circular majority. All of the proposals in S. 149 would work better if the Spending Reduction Commission first did the work proposed for it and then turned the job over to Congress for enactment.

The proposed enforcement mechanism in S. 149 is the famous old sequester mechanism, which actually did not work in the 1980s. That is one reason why Senator Gramm himself participated in the Andrews Air

Force Base group in the summer of 1990, which eliminated the sequester. A sequester that is large enough to put the fear of God into the hearts of Congressmen is also large enough for them to vote to repeal it.

The idea for a sequester, with across the board cuts in everything, is a perfectly proper doomsday device, provided it is small enough to be used. But I much prefer the deliberative approach to spending cuts that I find in the proposal for a Spending Reduction Commission. There are some programs in the Federal budget that genuinely are more important than others. I think the Tennessee-Tombigbee Canal, for example, should be allowed to silt up before we cut one cent from appropriations for the Department of Justice. It would be obscene to cut them equally because, at least in my opinion, the two programs are far from equally important to the national interest.

Across the board cuts as a punishment for failure either by Congress or by the Spending Reduction Commission to achieve the pre-set spending cut targets, however, is a valuable idea. Under Senator Mack's second bill, S. 206, and Representatives Miller and Minge's bill, H.R. 822, there is a sequester provision in Section 6(a). This enforcement provision would only be used if Congress failed to act, or if

the President failed to act. It would make the deliberations of the Spending Reduction Commission more important, politically, because it would establish a more unpleasant alternative.

I would be very much in favor of the stronger version of the legislation, because I believe the American people really do want to fix the long term problem of fiscal policy under our Constitution — the problem of unbalanced budgets. But as my old professor, Milton Friedman, warned us, we should not allow the best proposal to become the enemy of a very good one that might actually be passed by Congress.

Thank you, Mr. Chairman. I will be pleased to answer any questions you or members of the Committee may have.

The Heritage Foundation has just published an *Issue Bulletin* that I wrote analyzing Senator Mack's and Representative Miller's proposal for a Spending Reduction Commission. My general conclusion is that it is possible that **there may be no other way** to get to a balanced Federal budget.

Opponents of the balanced budget constitutional amendment are carrying on a **False Debate** against the supporters of the balanced budget idea. We hear this argument all the time: They say "just tell us how you will do it" or "give us a full five year plan for spending cuts." But this is a False Debate for at least two reasons:

To save time, I'm going to skip over the first argument in my written testimony against five and ten year "long term planning" and focus on the second problem of "circular majority." *on pp 5-6*

Congress is a collective decision making body. One thing economists can prove about collective or group decision-making is that sometimes a group can't make any decisions at all. All

you can get is an inconsistent result, which we call “circular majority.” In my testimony I spell this out more technically, but let me just give you a numerical example.

Assume nine people had to vote to cut one of three programs. If three people voted to cut Program A, three to cut Program B, and three voted to cut Program C, there would always be a majority of 6 against any program cut.

Take another example by assuming the voters all love one program and hate another one, but they don’t care either way about the third program so they vote with their friends. Taking the votes one at a time, the supporters and opponents of each program will tie — and the other three voters, who don’t care very much, will decide which program wins.

But when you try to choose the next program to cut, you now have a different mix of voters who care passionately one way or the other, and again the ones who don’t really care and just vote with their friends decide the outcome. It is easy to get the circular result in my diagram. on page 6

I believe the opponents of a balanced budget constitutional amendment understand this problem very well. Since you can put together a long series of majorities *in favor of NOT cutting* programs, the challenge to “tell us how you will do it over five years” is just a trap in this False Debate.

There is a strong national majority today in favor of a balanced Federal budget. Opponents want to change the subject in that debate to replace the majority public opinion today in favor of the balanced budget constitutional amendment with all the circular majorities that can be constructed against it from all the combinations of possible spending cuts.

But a Spending Reduction Commission could provide Congress with an alternative to the dilemma of circular majorities against spending cuts. It would be like a jury of average Americans, chosen to look at the facts and the evidence, and find the *guilty*, lowest priority things in the Federal budget.

The Spending Reduction Commission would take the spending cut process one year at a time, and not try to make a

fictional five year plan. It would be like an exploring party, cutting through a jungle with a compass. There is no way to have a detailed map through a jungle.

In American Constitutional history, we have faced this problem before, almost immediately after the Revolutionary War when the Articles of Confederation proved unworkable. In *The Federalist Papers* (No. 75), Alexander Hamilton described how the European Powers looked at Congress as a disorganized body, unable to make foreign policy. Other governments held the United States government in contempt. He was describing the problem of circular majority in foreign policy. So we created an Executive department, headed by the President, to conduct foreign policy.

Congress always points to the President to submit a balanced budget, but the President is just another politician in our domestic politics. The President's budget is "dead on arrival" in Congress. Congress is the final authority over taxing

and spending, but there is no way the Congress can solve its problem of circular majorities.

Some opponents will say that a Spending Reduction Commission is an abdication of Congressional responsibility. But once again, it is part of the False Debate to say that Congress should simply sit down and do the job. That is precisely how the trap of circular majorities produces legislative gridlock and unbalanced budgets.

The Spending Reduction Commission idea is not an evasion of responsibility. It is a tried and true way for a gridlocked Congress to fulfill its responsibility, in the same way that the Constitutional Convention — by creating the office of President to conduct foreign policy in 1787 — solved the circular majority problem back then.

I have spent most of my time on the proposal by Senator Mack and Representatives Miller and Minge because I really see their proposal for a Spending Reduction Commission as the most feasible plan.

I think the proposal of Senator Kyl, S. J. Res. 3, for a spending limitation amendment to the Constitution, is an excellent idea. But I don't see this proposal as essentially addressing the problem of circular majority, which I think is the central dilemma in the balanced budget debate.

The proposal by Senator Gramm, S. 149, is also an excellent proposal. I believe in setting annual targets for deficit reduction, zero based budget analysis of programs and agencies, and sunseting programs after 10 years. Limiting the growth in entitlements is clearly at the heart of the problem today in the Federal budget.

All of these ideas would be giant steps in the direction of fiscal control, but none of them really get to the central problems that I have pointed to: the fallacy of long-term "planning" in the Federal budget, and the problem of circular majority. All of the proposals in S. 149 would work better if the Spending Reduction Commission first did the job proposed for it and then sent its list of cuts to Congress for final passage.

The idea for a sequester, with across the board cuts in everything, is a perfectly proper doomsday device, provided it is small enough to be used. But a sequester that is large enough to put the fear of God into the hearts of Congressmen is also large enough for them to vote to repeal it. That is what happened at Andrews Air Force Base in the summer of 1990.

But I much prefer the deliberative approach to spending cuts that a Spending Reduction Commission would make. There are some programs in the Federal budget that genuinely are more important than others.

Under Representatives Miller's bill, H.R. 822, there is a sequester provision in Section 6(a). This sequester would only be used if Congress or the President failed to act. It would make the deliberations of the Spending Reduction Commission more important, politically, because it would establish a more unpleasant alternative.

I would favor this stronger version of the legislation, because I believe the American people really do want to fix the

Testimony of Joe Cobb

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problem of unbalanced budgets. But as my old professor, Milton Friedman, warned us, we should not allow the best proposal to become the enemy of a very good one that might actually be passed by Congress.

PREPARED STATEMENT OF MARLO LEWIS, JR.

Thank you, Mr. Chairman, for the opportunity to present testimony before this Committee. I am Marlo Lewis, Jr., Executive Director of the Competitive Enterprise Institute in Washington, D.C. CEI is a non-profit, non-partisan research and advocacy institute dedicated to principles of free enterprise and limited government.

This hearing is on three proposals which would provide enforcement mechanisms to achieve a balanced federal budget by the year 2002. CEI finds much to recommend in each of these measures. Senator Kyl's proposed balanced amendment, S.J.Res 3, would roll back Federal spending from 23 percent of gross domestic product to 19 percent -- transferring vast sums from the inefficient bureaucratic sector to the productive private sector. If Senator Kyl's amendment works as intended, it will give Washington officials something they now lack -- a strong incentive to remove impediments to economic growth and opportunity. If government cannot grow larger than 19 percent of GDP, then policy makers who want to expand agency and program budgets must first reduce the fiscal and regulatory burdens that Washington now imposes on the economy.

S.149, Senator Gramm's Balanced Budget Implementation Act, would make several improvements in federal budgeting. By requiring that Congress enact a legally binding joint resolution before any spending legislation can be considered, S.149 would encourage early consultation and cooperation between Congress and the President on fiscal policy. S.149 would also discipline spending through sunset provisions for most programs, a prohibition on unauthorized appropriations, and a provision limiting the growth of entitlement spending to increases in the consumer price index and the eligible population. All these measures seem to me eminently sensible and long overdue.

I now turn to Senator Mack's proposal to create a Government Spending Reduction Commission. CEI is enthusiastic about S.202. This proposal is a much needed corrective to the balanced budget amendment most likely to be approved by Congress this year.

Mr. Chairman, the Competitive Enterprise Institute was a strong supporter of the tax limitation balanced budget amendment sponsored by Rep. Joe Barton of Texas. Although the Barton amendment failed, Speaker Gingrich and other House Republican leaders have promised to introduce a separate tax limitation amendment and bring it to a vote on Tax Day, April 15, in 1996 -- a presidential election year. We believe tax limitation can succeed, especially if GOP leaders mount an all-out publicity campaign to make tax limitation a key election-year issue. In

the meantime, however, appropriate implementing legislation should be enacted to ensure that the balanced budget amendment recently approved by the House -- the amendment sponsored by Rep. Charles Stenholm of Texas -- does not turn the Constitution into a tax-increase engine. It is in this context that I will discuss S.202. CEI views this proposal as an essential safeguard for taxpayers and the economy.

Chronically unbalanced budgets are a symptom of a deeper imbalance in the body politic -- the imbalance of power between taxpayers and tax consumers. Because spending programs have concentrated benefits and diffuse costs, and because small groups are easier to mobilize than large, tax consumers almost always are better organized and more motivated than taxpayers to influence legislation. A few thousand subsidized peanut farmers can easily overpower millions of taxpayers in the halls of Congress.

Also, let's not forget that most important category of tax consumers -- public officials such as yourselves! Rising tax burdens increase the power, wealth, and importance of the political estate vis-a-vis the private sector. Many individual legislators can be relied upon to champion the interests of taxpayers. But as a profession, public officials have a collective interest in raising taxes. And it is public officials who make fiscal policy.

To impose real fiscal discipline on Washington, a balanced budget amendment must be specifically designed to counteract the inherent advantages tax consumers enjoy in the political process. A Stenholm-type amendment does nothing of the kind. On the contrary, by requiring a three-fifths supermajority vote to run a deficit but only a simple majority to raise taxes, it invites Congress to balance the budget on the backs of taxpayers. Indeed, Stenholm will provide political cover for big spenders: "Yes, I voted to raise taxes -- the Constitution made me do it!" Taken straight and unalloyed, a Stenholm-type amendment will add the moral weight of the Constitution to the self-serving demands of tax consumers.

Stenholm creates special risks for the GPO. For years Republican lawmakers have blamed Democrats whenever Congress raised taxes. Many seem to assume they will always be able to pin the tax tail on the Democratic donkey. Not so! Republicans are the majority party now. From now on, Republicans bear the responsibility for each and every tax increase. Unless appropriate implementing legislation is adopted, however, a Stenholm-type amendment will push Congress to raise taxes.

Not in the short run, of course, since both parties, looking ahead to the 1996 elections, are now talking about tax relief. But as we approach the

year 2002, when the red ink is scheduled to disappear, GOP lawmakers will come under growing pressure to approve "moderate" deficit reduction packages that include new taxes. Faced with a constitutional obligation to balance the budget, but lacking the discipline provided by a tax limitation provision, many will be powerfully tempted to "evolve" in office. Almost without realizing it, the GOP could morph into a pro-tax party. Needless to say, a pro-tax party cannot plausibly claim to be the party of smaller government and economic opportunity.

An amendment that augments Washington's power to tax would create political liabilities for Democrats as well. The November elections were a resounding call for smaller, less intrusive government. Bi-partisan collusion to raise taxes would feed anti-incumbent sentiment, stoke the term limits movement, and fuel third party candidacies.

Senator Mack's proposal would supply the spending discipline and taxpayer protection that are lacking from the Stenholm amendment. S.202 would create a Government Spending Reduction Commission. Under this proposal, Congress would be required to approve \$45 billion of spending cuts annually between fiscal year 1997 and fiscal year 2002. If Congress fails to reach the spending reduction target on its own, the Commission would be appointed to propose a list of cuts sufficient to meet the target. Congress would then have to vote on the Commission's recommendations as a package, with no amendments allowed. The Commission would have no authority to propose tax increases. Clearly, S.202 would compel Congress to balance the budget without raising taxes.

Applying the base closure commission formula to the larger federal budget mess is exactly the way to go. For reasons already alluded to, it is virtually impossible to kill any federal expenditure one at a time, no matter how obsolete, duplicative, extravagant, or counterproductive. In 1983, at the height of the Reagan military buildup, the Pentagon estimated that only 312 of the 4,200 military installations in the continental United States were vital to national defense. Yet despite frequent requests from DOD to close or consolidate unneeded or redundant bases, Congress prevented the Pentagon from closing even a single base from 1978 to 1988. Ironically, some of the fiercest defenders of these bases were among the harshest critics of the Reagan buildup.

The breakthrough came when Congressman Dick Armey proposed that the selection of bases be made by a bi-partisan commission and that the commission's recommendations be accepted or rejected as a package, through an up-or-down vote with no amendments. Since then hundreds of installations have been closed or realigned, saving taxpayers billions

and boosting local economies by freeing up land and modern facilities for commercial and other developments.

Why did the commission formula work? Sacrifices are easier to accept when you know that everyone has to make them. The commission approach makes spending cuts more palatable to beneficiaries by putting many groups in the same boat. There is no constituency for isolated spending cuts -- no constituency for eliminating one base in one district, for example -- because the taxpayer payoff is minuscule. Raise the stakes by putting scores of wasteful expenditures on the chopping block, however, and taxpayers will see the benefit and demand action. The commission's bi-partisan makeup and use of explicit selection criteria were also critical, as these features protected the integrity of the entire process. Finally, we should probably not underestimate the shame factor. When many gobs of wasteful spending are bundled together in a package, the combined mass becomes a visible symbol of Washington's prodigality -- an embarrassment most lawmakers would prefer to make disappear.

S.202 contains a number of fine points worth mentioning. First, OMB, CBO, Congress, the President, and the two parties all have important responsibilities. Nobody is off the hook. Nobody can pretend he wasn't consulted. Agreement is required by all the relevant actors at each stage of the process. For example, OMB will develop the criteria to be used in making recommendations for spending cuts, but CBO evaluates them. The President proposes seven nominees for the Commission; however, to be appointed, four must be approved by the majority party and three by the minority.

Second, the Commission doesn't act unless Congress fails to pass enough spending cuts each year to achieve a balanced budget by 2002. Thus, S.202 gives Congress an opportunity to earn the respect of the American people. At the same time, it provides a fail-safe mechanism for eradicating the red ink through spending cuts alone. Third, S.202 wisely prohibits current and former members of Congress from serving on the Commission. As much as humanly possible, the Commission should be above the suspicion that it serves the narrow political advantage of any person or party. For this reason, I think, it would also be prudent to exclude from membership on the Commission any private citizen with well-known ambitions to run for office.

Mr. Chairman, an old adage has it that if your outgo continually exceeds your income, your upkeep will inevitably be your downfall. I think there's a great deal of truth in this maxim. However, we also shouldn't forget that taxes are not really income but the appropriation of other people's earnings. Chronic \$200-billion deficits are only the most

obvious sign that our government has grown to the point where it is no longer affordable. Eliminating the deficit is not an end in itself but a means to the larger purpose of curbing government's growth. The deficit is a problem, but mainly because it fuels government expansion by disguising and shifting onto future generations the true cost of current programs. All three of the proposals this Committee is considering today have the right ultimate objective: cutting spending so that the American people can once again have a government they can afford.

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PREPARED STATEMENT OF THOMAS A. SCHATZ

Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the Joint Economic Committee. My name is Tom Schatz and I represent the 600,000 members of Citizens Against Government Waste (CAGW). Your interest in CAGW's comments are a true indication of the tidal wave of change that swept the country on November 8th.

CAGW was created 11 years ago after Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

Since 1986, the implementation of Grace Commission recommendations has helped save taxpayers more than \$250 billion. Other CAGW cost-cutting proposals enacted in 1993 and 1994 will save more than \$100 billion over the next five years. CAGW has been working tirelessly to carry out the Grace Commission's mission to eliminate government waste.

But there is still more to do. A \$4.7 trillion debt and chronically high budget deficits are clear indications that we have been living beyond our means. Unfortunately, spending must be drastically reduced, programs eliminated and priorities re-ordered to ensure a sound economic future. If taxpayers cannot get a real return on their investments from a program, then it should be eliminated. If a program is not significantly time-sensitive, it should be deferred until the budget is balanced.

Taxpayers are suffering from the costs of inefficient government. The national debt still grows by more than \$388,000 each minute. We are calling on you to answer the call for reform and spending cuts that taxpayers made on Election Day.

Thomas Jefferson said almost 200 years ago: "The question whether one generation has the right to bind another by the deficit it imposes is a question of such consequence as to place it among the fundamental principles of government. We should consider ourselves unauthorized to saddle posterity with our debts, morally bound to pay them ourselves." Those words remain true today. That's why CAGW has supported a balanced budget amendment with a tax limitation.

For more than a quarter century, the federal budget has been unbalanced. Interest on the federal debt for FY 1995 is estimated at more than \$310 billion, making it the second largest item in the budget next to Social Security. Even more frightening, the national debt will reach \$6 trillion by 1998. The president's fiscal year 1996 budget does nothing to

slow down the runaway debt freight train. Last year, the president projected a debt of \$5.95 trillion in FY 1998 and \$6.31 trillion in FY 1999. This year's budget projects a debt of \$6.0 trillion in FY 1998 and \$6.36 trillion in FY 1999. The president's budget not only punts on the deficit and debt, it punts backwards.

The current budget process has failed to prevent deficit spending or the enormous national debt that will destroy the standard of living for future generations. Past laws to restrain fiscal irresponsibility have been watered down or simply ignored. Only a constitutional amendment, followed by strong implementation legislation, will lead to a balanced budget.

CAGW supports current efforts in Congress to enact a balanced budget amendment. Senators Hatch, Craig, and Simon deserve recognition for introducing a balanced budget amendment to the Senate and providing solid, bipartisan leadership to ensure its passage. While we reiterate our support for a three-fifths tax-limitation provision to prevent increased taxes from being used to balance the budget, we recognize that the perfect must not interfere with the good.

Senator Gramm's Balanced Budget Implementation Act (BBIA) will help assure that Congress does in fact balance the budget. The Gramm proposal requires that the spending authority for all unearned entitlements and the most expensive one-third of discretionary programs expire before FY 1996. In order to continue funding for those programs, Congress must re authorize them for that fiscal year. In FY 1997, authorization for all other discretionary spending programs expires. The plan exempts Social Security, veterans benefits, retirement programs and Medicare from this process.

The BBIA also creates a point of order in both Houses against any bill or provision that appropriates money for programs without authorization, unless the point of order is waived by a three-fifths vote in both Houses. Finally, the amendment requires that all discretionary spending and unearned entitlements be authorized every 10 years, beginning with the first-session of Congress that follows the Census reapportionment. All unearned entitlements and the most expensive one-third of discretionary programs will expire in the first session; the rest in the second session.

Sunsetting requires programs to re-justify themselves, and eliminates the perpetual opportunity to appropriate funds for programs which have not been reviewed by the authorizing committees, sometimes for decades. In fact, CAGW would support a more frequent re authorization process; perhaps every five years. CAGW suggested sunseting entitlement programs in its July 1994 report on entitlement reform. If Congress would be forced to regularly consider entitlement programs, it is more likely that

the programs would be reformed to reduce the fiscal risk to which the federal government is exposed.

The BBIA also maintains and extends the discretionary budget freeze, and caps growth in entitlement spending, except Social Security, for FY 1997 - FY 2002. The growth rate is an aggregate cap equal to that of the Social Security growth rate over the same period. Individual entitlements may grow at faster rates, but aggregate growth is capped. If the aggregate growth exceeds the cap, then there is a point of order for an across-the-board sequester to eliminate excess growth, except Social Security. A three-fifths vote is required to exclude any other entitlement, which would remain excluded until Congress voted to bring the program back into the cap.

CAGW's July 1994 report on entitlement reform noted that sequestration would not specify the necessary reductions in individual programs that would be needed to avoid sequestration. The entitlement cap could allow members of Congress to hide behind the automatic sequester and avoid making the hard management decisions that would control entitlement spending. But the cover of an automatic sequester could be the answer to the political sensitivity of entitlement programs.

Sunsetting unearned entitlement subjects them to regular review. The earned entitlements, however, should also be subjected to review, and not left simply to the sequestration process. Placing a limit on an entitlement program is no substitute for changing the policies controlling it.

Spending caps do not address the real problem of entitlement spending. Instead, they tackle the symptom -- out-of-control spending -- not the cause: entitlement programs are loosely governed by generous spending formulas and not the fiscal restraint which should determine federal spending decisions.

CAGW's preferred method of reducing entitlement programs is to go through each, one by one, searching for ways to cut benefits, limit eligibility or force recipients to pay more in the way of premiums, fees, or other offsets. New program rules or tax laws could limit who qualifies for benefits, reduce the amount of benefits provided, or change the taxation of benefits. Essentially, the program-by-program approach is an attempt to put individual entitlement programs on a sound financial footing and eliminate wasteful spending.

The program-by-program is most difficult because of politicians' reluctance to take away congressional-mandated benefits and public resistance to giving up something many believe they have a right, or entitlement to keep. Members of Congress can bury proposals in

committee referrals and block reform measures. Special interests can use their influence to perpetuate many of the programs.

In 1984, the President's Private Sector Survey on Cost Control, popularly known as the Grace Commission, observed that entitlement spending was a "driving force in the uncontrolled growth of Federal Spending." The Grace Commission found that "adequate information does not exist to the degree to which the intended recipients of these subsidy programs are receiving sufficient benefits or, conversely, the degree to which benefits are being bestowed upon undeserving recipients to the detriment of all taxpayers. Indeed, there is no way to identify all the subsidies a particular person receives."

The Grace Commission observed that the information gap on administering subsidized programs or entitlements has caused a lack of control, resulting in significant mistargeting of benefits. To better target all federal benefits to those who deserve them, the Grace Commission recommended that each federal department or agency providing a subsidy to a specific beneficiary issue a form similar to a W-2 form, with a copy going to the Internal Revenue Service, that would total all payments to individuals and add the total to the beneficiary's earnings in order to arrive at total income. The commission recommended that a cut-off point be established below which subsidy payments would not be taxed -- with everything above the cut-off point included in total income and taxable as any other income would be at the individual or corporation's given tax bracket.

The information provided as a result of the form would enable federal policy-makers to determine the extent to which these targeted outlays are meeting stated objectives or, conversely, benefiting those who are not in need of subsidies. For beneficiaries above the cut-off point, the prospect of having to pay taxes would serve as a disincentive to receiving subsidized payments.

The Grace Commission concluded that this kind of detailed data collected through the issuance and consolidated of subsidy forms (similar to the W-2 forms issued to wage-earner) is a critical first step in a process that will enable the federal government to manage means-tested programs more effectively -- and in the process, save taxpayers billions of dollars. The Grace Commission approach would be highly effective combined with the program-by-program approach.

Senator Gramm's legislation establishes fixed deficit targets in order to balance the budget by the year 2002, by modifying and extending the existing maximum Gramm-Rudman (GR) deficit targets. It also extends the GR sequester mechanism to reach and maintain a balanced budget for

FY 2002 and beyond. This provision again places a spending limitation by requiring a three-fifths vote to override the target deficit levels for each year and makes the point of order permanent to ensure the budget remains balanced.

The provisions of Senator Gramm's bill would help ensure that balancing the budget by FY 2002 becomes a reality. The "look back" provision would assure that the targets are reached each year.

Spending limitations are an integral part of the balanced budget debate. Past measures to get the budget deficit under control failed in large part to loopholes built into the legislation. Although the Gramm-Rudman Act was a serious means to balance the budget in 1985, it failed because Congress and the President chose to ignore the target reduction levels and further increase the debt. If the Gramm-Rudman Act had been applied as it was intended, the whole discussion about a balanced budget amendment would not be taking place today.

Senator Jon Kyl has proposed a Balanced Budget Spending Limitations Amendment (BBSLA) that would cap spending to 19 percent of the GNP. By making it an amendment, Congress would have no means to circumvent the procedure and increase spending as it has in the past. Rather, Congress would be forced to limit spending and encourage domestic growth. The higher the GNP, the more money Congress would have to spend, yet it would never be a larger portion of the economy.

Today, spending is roughly 23 percent of the GNP and only small cuts of .5 percent each year would be required to meet the 19 percent mark by 2002. James Buchanan of the Center for the Study of Public Choice at George Mason University claims that "reducing government as a share of GNP from its current level of 25% to, say, 20%, would generate roughly a 2% increase in the rate of the growth of GNP."

Spending limitations have eluded Congress, thereby making a balanced budget impossible. Amending the Constitution with a balanced budget requirement coupled with spending and tax limits will make fiscal stability a reality. Senator Kyl's amendment is also pro-growth, because it is linked to private sector success or failure to generate money. Anti-growth regulations and mandates would be considered more carefully because of their impact on Congress' ability to spend. This amendment not only balances the budget, but limits spending in away that benefits the economy.

Given the reality of the balanced budget amendment approved by the House and being considered in the Senate, Senator Kyl's bill, like the tax limitation, will be the subject of a future effort to strengthen the

amendment. In either case, passing a balanced budget amendment is merely the first step.

Balancing the budget will still require Congress to make decisions on where and how to spend tax dollars. But George Will recently noted it's not necessarily a difficult endeavor:

Tending livestock in Nebraska in February, that is hard work. Being a hod carrier in New Orleans in August is hard work. Teaching in an inner-city high school of giving critical care to the elderly is hard work. But in what sense is it hard work for legislators to decide to spend other people's money at a somewhat slower rate of acceleration than had been planned? That is what balancing the budget in seven years would involve.

The Congressional Budget Office estimates that Congress must eliminate \$45 billion in spending each year to achieve a balanced budget by FY 2002.

Senator Mack has proposed a solution to make budget cuts by proposing to create a government spending reduction commission, which combines ideas from the Grace Commission, Gramm-Rudman, and the Base Closure and Realignment Commission to eliminate spending by the target deficit levels. The Grace Commission was not armed with the power to enact its proposals, but Senator Mack's commission has specific enforcement mechanisms just like those of the base closure commission. The spending reduction commission will target deficit levels, and make binding budget decisions to balance the budget.

The Mack proposal sets specific guidelines to follow in the budget process and does not require action by the commission unless Congress fails to meet the deficit reduction level for that year. If necessary, the cuts the commission makes will be introduced as a non-amendable privileged motion to be voted on by September 30 or introduced for a roll call vote by the presiding officer. The spending reduction commission will prioritize spending, backed by economic analysis from the Office of Management and Budget to ensure that spending is reduced at the recommended \$45 billion a year. Senator Mack's bill creates a Grace Commission with teeth to finally arrest runaway spending and deficits, and put America back on track to a stable and balanced budget.

CAGW believes sequestration is a necessary option, but one to be avoided. The spending reduction commission could provide the recommendations to meet the new Gramm-Rudman deficit targets should Congress fall short. Members of Congress would still have the opportunity to make the tough decisions before the sequestration ax would fall.

Mr. Chairman, Congress usually has good intentions when spending money, but the power to do good is also the power to do mischief with

our tax dollars. Care must be taken when looking at individual programs and projects; the more open and honest you are, the more likely a project is to withstand the light of day.

Restoring fiscal sanity to our nation is the most important job for the 104th Congress. The country is awash in a sea of red ink, and every day slips perilously closer to bankruptcy. The national debt is expected to rise to nearly \$6 trillion by the end of the century. This is not the legacy that we should leave to our children and grandchildren. Spending has not been cut to the bone. Money is being wasted daily and the clock is ticking. We're sitting on a fiscal time bomb that needs to be defused.

This concludes my testimony. I'll be glad to answer any questions you may have.

PREPARED STATEMENT OF MARTIN A. REGALIA

Mr. Chairman and Members of the committee, my name is Dr. Martin Regalia, and I am Vice President for Economic Policy and Chief Economist for the U.S. Chamber of Commerce. The Chamber is the world's largest business federation, representing 215,000 businesses, 3,000 state and local chambers of commerce, 1,200 trade and professional associations, and 72 American chambers of commerce abroad. We appreciate the opportunity to appear before this committee to discuss the implementation mechanism for achieving a balanced federal budget and we commend you, Mr. Chairman, for holding hearings on this important subject.

The Chamber strongly supports a balanced budget amendment. We believe that large and growing federal deficits reduce savings and investment, stymie income and job growth, and reduce productivity growth and our standard of living. We know that these deficits ultimately lead to bigger government and higher taxes. We know, as well, that the only effective way to achieve a balanced budget is with reductions in government spending, not increases in taxes. The point of today's hearing is to discuss a plan or blueprint for achieving a balanced and discuss three popular approaches for achieving that end.

Let me begin by addressing some broad issues. We believe that any implementation plan must include certain basic parts: a clearly defined goal; sensibly selected interim targets; an error corrections mechanism; and an enforcement mechanism. Let me discuss each in turn.

The primary goal of this process is to balance the federal budget. But the mere equating of spending outlays and tax revenues is only half the solution. While we understand that the budget must allow for needed public goods, the budget must also be balanced at a level that the economy can afford. Balancing the budget at a level of taxation that beggars the economy would be the hollowest of victories.

Moreover, any attempt to balance the budget with excessive tax increases likely will lead to lower economic growth and tax avoidance behavior that will thwart the desired goal. The Chamber believes that the only successful way to balance the budget is with spending cuts. Furthermore, we believe further that it is the role of Congress as our elected representatives to make these cuts.

Because our deficits have persisted for over a quarter of a century, the solution will be neither quick nor easy. Congress has recognized this problem and specified a date for completion that provides sufficient time to reach the goal without undue cost to the economy. To ensure that we

do not squander the intervening time period, however, Congress should choose appropriate interim targets, both to guide policy and to gauge its effectiveness.

Such interim targets, which define our re-entry path to fiscal responsibility, can be specified used in Gramm-Rudman-Hollings, which chooses specific dollar targets for the deficit, has the benefit of clarity and conciseness, but can be compromised by unforeseen developments in the economy. Relative targets, which define a deficit or spending path in relation to economic growth, have the benefit of incorporating interim changes in economic activity, but have the drawback of being somewhat more complex than the absolute approach. Either approach can work, but the tradeoffs should be evaluated beforehand.

After we have defined our goal and picked interim targets, the next piece of the implementation puzzle is to define an error-corrections mechanism. A major drawback to the earlier attempts to balance the budget, such as Gramm-Rudman-Hollings, was the lack of a workable error-corrections mechanism. Failure to hit a specific interim target resulted in the error being carried forward and subsequently embodied in the targets. Achieving a balanced budget by some certain date requires that errors be corrected "in route" and not bunched in the fiscal year.

The final piece of the implementation machinery is an enforcement mechanism that would provide Congress with the incentive to make the tough decisions. Spending cuts are never easy, but the long-run success of the program demands that Congress not shrink from these tough decisions or retreat behind the cover of tax increases. While recognizing that across-the-board proportional spending cuts are certainly not the preferred alternative, the Chamber has supported such sequestrations as a method of last resort. When Congress shirks its responsibility to prioritize programs and make necessary cuts, there is little alternative. A weak-willed and profligate Congress cannot be allowed to opt for the path of least resistance and simply raise the deficit or increase taxes.

Let me turn now from the general components of an implementation plan to the specific proposals under consideration by this Committee today. While the specific proposals have a common goal, they choose to emphasize different aspects of the solution. However, they should not be viewed as substitutes or mutually exclusive parts, but rather as components or synergistic pieces of a common solution. If combined judiciously, they can all play a part.

The Chamber has long endorsed the concept of a spending reduction commission. While we believe that decisions on government spending

reside first and foremost with Congress, the establishment of a bipartisan commission can help a deadlocked Congress reach a reasonable and workable solution. Modeled after the successful base closure commission, a spending reduction commission could provide the objectivity and discipline necessary for Congress to rise above special interests and advance the broader national interest in restraining spending.

A spending reduction commission would also be flexible enough to operate as a stand-alone mechanism or as an integral piece of a broader implementation plan. In this latter role, for example, a commission might provide an interim step between a Congress that has failed to hit its annual target and the adoption of across-the-board spending cuts forced by sequestration.

The Balanced Budget Implementation Act, S. 149, is a more detailed piece of legislation than either of the other two considered today. It embodies many of the concepts discussed earlier, some of which have been endorsed by the Chamber, for example, zero-based budgeting. The concept of a "baseline budget" that incorporates projected increases in program costs and inflation as a "base case" and reports reductions from such a base case as "spending cuts" is grossly misleading and unethical. Labeling a smaller increase as a "spending cut" misleads the voters and misrepresents Congress' commitment to fiscal discipline. This process should be stopped. S. 149 also incorporates a sequester mechanism. As I stated previously, the Chamber has recognized the benefits of a method of last resort that creates an incentive for Congress to make the difficult decisions.

While providing a detailed approach to implementation and achievement of a balanced budget, S. 149 is also flexible enough to incorporate the other approaches discussed today. The concept of a spending reduction commission could be integrated into the process when Congress is unable to achieve sufficient cuts on the first pass. The specific interim deficit targets included in S. 149 could also be modified to include spending limits as structured in Senator Kyl's amendment.

The final pieces of legislation for discussion at this hearing is S.J. Res 3, a balanced budget amendment that limits spending to a fixed percentage of GDP. The Chamber believes that the method used to balance the budget -- spending cuts or tax increases -- is critically important to achieving the desired end. Cutting government spending is not just a preferred method, it is virtually the only method that can achieve long-term success. Economic model simulations also suggest that balancing the budget with spending cuts provides greater long-term economic benefits -- GDP is higher and inflation and interest rates lower

-- using this approach. A successful implementation process must incorporate the concept of spending limits.

In addition to the processes discussed today, there are many other proposals that can play a part in reducing government spending and achieving a balanced budget. The Chamber believes that Congress must evaluate and change the current procedures to create an environment that encourages spending restraint. Last year, the Chamber supported the A to Z Spending Cut proposal, which would have established a limited time period for any member of the House to offer a spending cut and have it voted on; the Chamber has long advocated a line-item veto or enhanced rescission authority, and the Chamber has supported limiting emergency spending bills only to spending directly related to that emergency. We should not forget about these alternatives when formulating a solution to the deficit problem.

Once again, Mr. Chairman, we commend you for these timely hearings and stand ready to assist you and Congress in developing an approach to rid us of our deficit.



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